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EUROPEAN UNIVERSITY INSTITUTE
Department of Political and Social Sciences

Policy Implementation as Incomplete Contracting: The European Regional Development Fund

by

Paul McAleavey

Thesis submitted for assessment with
a view to obtaining the Degree of Doctor of the
European University Institute

Florence, November 1995

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Professor Adrienne Héritier (European University Institute)
Professor Brian Hogwood (University of Strathclyde)
Professor Michael Keating (University of Western Ontario)

Florence, November 1995

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But Mousie, thou art no thy lane,
In proving foresight may be vain:
The best-laid schemes o' mice an' men
Gang aft agley,
An' lea'e us nought but grief an' pain,
For promis'd joy!

Robert Burns, *To a Mouse.*
On Turning her up in her Nest with
the Plough, November, 1785

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It is not often that an opportunity arises to put down on paper like this the support I have enjoyed over the years from my family. From a very early age, one of the things I remember most clearly is James McAleavey, my late grandfather, telling me to 'stick in at school' because 'education is the greatest thing in the world'. Many other Scottish children from a similar background will have benefitted from this same advice. Unfortunately, the mining and industrial world from which our families hoped we could make a break no longer exists anyway. That is part of the story of this thesis. Rena and Frank McAleavey, my parents, did everything to make it possible for me to heed my grandfather's advice and benefit from a long period in higher education. I feel enormous gratitude towards them and pride in that background which provided me with such support.

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Brussels, October 1995.

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Abbreviations

ACTE	Association of European Textile Associations
AEBR	Association of European Border Regions
ASSET	Ardrossan, Saltcoats and Stevenson Enterprise Trust
CAP	Common Agricultural Policy
COSLA	Convention of Scottish Local Authorities
CP	Community Programme
CSF	Community Support Framework
DA	Development Area
DEA	Department of Economic Affairs
DG	Directorate-General
DG II	Directorate-General for Economic and Financial Affairs
DG III	Directorate-General for Industry
DG IV	Directorate-General for Competition Policy and State Aids
DG V	Directorate-General for Employment, Industrial Relations and Social Affairs
DG VI	Directorate-General for Agriculture
DG VII	Directorate-General for Transport
DG XI	Directorate-General for Environment, Nuclear Safety and Civil Protection
DG XIII	Directorate-General for Telecommunications, Information Industries and Innovation
DG XIV	Directorate-General for Fisheries
DG XVI	Directorate-General for Regional Policies
DG XVII	Directorate-General for Energy
DG XVIII	Directorate-General for Credit and Investments
DG XIX	Directorate-General for Budgets
DG XX	Directorate-General for Financial Control
DG XXII	Directorate-General for Co-ordination of Structural Policies
DTI	Department of Trade and Industry
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Community
ECSC	European Coal and Steel Community
EDA	Economic Development Administration
EEC	European Economic Community
EFC	European Funds and Co-ordination Division
EIB	European Investment Bank
EMU	Economic and Monetary Union
EPRC	European Policies Research Centre
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EZ	Enterprise Zone
GDA	Glasgow Development Agency
GDP	Gross Domestic Product
GEAR	Glasgow Eastern Area Renewal
IA	Intermediate Area

ICI	Imperial Chemical Industries
IDC	Industrial Development Certificate
IDO	Integrated Development Operation
IDS	Industry Department for Scotland
IMP	Integrated Mediterranean Programme
LEC	Local Enterprise Company
LGIB	Local Government International Bureau
MEP	Member of the European Parliament
NPCI	National Programme of Community Interest
NUTS	Nomenclature des Unités Territoriales Statistiques
PE	Programme Executive
RDP	Regional Development Programme
REG	Regional Enterprise Grants
RETI	European Regions of Industrial Technology
RSA	Regional Selective Assistance
SCOTBIC	Scottish Business in the Community
SDA	Scottish Development Agency
SDD	Scottish Development Department
SEA	Single European Act
SEPD	Scottish Economic Planning Department
SMEs	Small- and Medium-Sized Enterprises
SOID	Scottish Office Industry Department
SRC	Strathclyde Regional Council
TA	Technical Assistance
TEC	Training and Enterprise Councils
TPE	Territorial Political Exchange
TTWA	Travel-To-Work-Area
UDC	Urban Development Corporation
UKREP	Office of the United Kingdom Permanent Representation to the European Community
VFM	Value for Money

Chapter 1. Introduction: Research Design and Theoretical Orientation

> ... Relationships between policy-making and enforcement of policy in the Community have a hazy aspect that allows fogging of issues and surprising degrees of ambiguity. Since its arms and its eyes are not under its control - enforcement and fact-finding are all controlled elsewhere - pragmatism creeps in not through doctrine, but through selective awareness. Readiness to accept murky or even distorted fact-statements is not unknown to other systems, but it is built into Community relationships (Krislov, Ehlermann & Weiler 1986: 22).

1.1 Introduction[1]

This introductory chapter presents a research framework for analysing the implementation of European Regional Development Fund (ERDF) programmes. The implementation of such programmes since the late 1980s according to the principle of *partnership* has created a complex arena involving a multiplicity of actors in the policy field of regional economic development. Defined in the Regulations governing the implementation of the European Community's Structural Funds[2] as 'close consultations ... between the Commission, the Member State concerned and the competent authorities designated by the latter at national, regional, local or other level, with each party acting as *a partner in pursuit of a common goal* [emphasis added]', the principle of partnership stands at the centre of this analysis.[3] Involving regional and local actors in the implementation of a five-year regional development programme may enhance the capacity of the programme to respond to economic circumstances by allowing the European Commission access to highly dispersed

[1] Following the terminology of the Maastricht Treaty, the term European Community (EC) is employed throughout to denote the economic and social 'pillar' of the European Union (EU). The thesis does not deal directly with the other two pillars - the Common Foreign and Security Policy and co-operation in the field of justice and home affairs. The term European Union is employed herein only when referring to the collectivity of the member states. Similarly, for the sake of convenience, the Commission of the European Communities is referred to throughout simply as the European Commission.

[2] The Structural Funds currently comprise three grant making instruments: the European Social Fund (ESF) aims to improve employment prospects in the European Union; the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) supports national agricultural aid schemes and aims to develop and diversify rural areas; and the European Regional Development Fund (ERDF) supports measures to reduce regional economic disparities. The reasons for the focus of this study on the ERDF are explained later in this chapter.

[3] The rules governing the operation of the Structural Funds were overhauled during 1988 through three Regulations which came into effect on 1 January 1989, the so-called 'Framework', 'Horizontal' and 'Implementing' Regulations as follows: Regulation (EEC) 2052/88, O.J. No. L185, 24/6/88; Regulation (EEC) 4253/88, O.J. No. 374, 19/12/88; Regulation (EEC) 4254/88, O.J. No. 374, 19/12/88. 'Partnership' is one of the four key principles underpinning the reformed Regulations, which were revised anew in 1993. The four key principles are considered in detail in Chapters 3 and 4. The definition of partnership presented here is taken from the preamble to the Framework Regulation.

information on the regional economy. However, how is the implementation of the programme in turn shaped by the institutional complexity ushered in under the partnership principle? More specifically, how does the European Commission seek to shape the implementation process to maximise its access to local information, but minimise the likelihood that its own regional development priorities are displaced through the involvement of a multitude of actors with competing priorities?

Such questions concerning the implementation of EC policies remain largely neglected in the literature of political science and public policy analysis. As the relative importance of structural spending among European policies involving direct expenditure has increased, it is indeed the case that academic attention has been drawn to this policy field. The Structural Funds are due to reach around one third of the total budget of the European Union by the end of the century, rising from ECU 7.2 billion in 1987 to ECU 27.4 billion in 1999 (European Commission 1993c: 16). The seemingly inexorable growth of the Structural Funds budget over the last two decades has long held the attention of political scientists, given the apparent compensatory logic of structural spending (Wallace 1977; 1983; Hull 1979; Marks 1992). Most of the research concerning the ERDF has therefore focused on the *horizontal* negotiations *between* member states at the European level regarding the size of the overall budget and their respective shares from it. The role of the European Commission is generally interpreted as marginal to what is essentially an intergovernmental bargaining process. Analysis of the *vertical* process of actually spending allocations *within* EC member states, however, has been comparatively neglected, despite the efforts of the European Commission to carve out a greater role for itself in the process during the 1980s. In general terms, it remains the case that 'the literature on the implementation as distinct from the negotiation of international policies is sparse' (Wallace 1984: 129).

Almost three decades ago, Hoffmann famously described the role of member state governments as 'gatekeepers' between the supranational Community and domestic actors (1966). In recent years, successive reforms of the ERDF have led to its development as a policy field in which it is possible to analyse the extent to which the Commission is able to act beyond the member states' 'gatekeeping' position to influence the ultimate utilisation of its funds. This study seeks to show that a shift in focus from inter-state bargaining to intra-state implementation reveals a complex inter-organisational environment involving the European Commission behind the outer-shell of the member state. The extent to which the European Commission is able to frame a regional policy reflecting its own objectives, and which it is able to implement in the environment of partnership, provides a useful test-case of the Commission's role in the process of policy-making and implementation.

The primary aim of this research is to develop a model of policy implementation that illuminates the complexity of the ERDF partnership process and facilitates analysis of the role of the European Commission in implementation in this policy field.[4] Drawing on the literature of modern political economy - and lessons of economic neo-institutionalism in particular - to bolster the policy implementation perspective, the agreement between the member state, the European Commission and the regional partners to implement a programme of regional economic development is conceptualised as a 'contract'. The nature of the contract is of central interest to this research. Subsequent chapters suggest that it is impossible (and probably undesirable) to foresee (and plan for) at the moment of agreement all the possible contingencies that could arise during the course of a five-year regional development programme. Problems inevitably arise in a multi-actor arena where each actor has its own priorities and decision-making system. As is widely recognised in economics, the perfectly-fashioned, complete contract specifying the course of action to be adopted in all eventualities is practically impossible to achieve under normal circumstances. The process of bargaining does not come to a conclusion when a decision is taken on the contract: by contrast, bargaining is a feature of all stages in the preparation and execution of the regional development programme. A model of policy implementation as 'incomplete contracting' is therefore developed in chapter 2. The central research question can thus be stated as follows: *what is the nature of the governance structures the European Commission has been able to fashion in order to seek to shape the implementation of the 'incomplete contract' over the course of the programme in order to pursue its own objectives?*

ERDF programme implementation in the case of Western Scotland is examined in depth in chapters 5, 6 and 7. These chapters provide and analyse, for the first time, detailed, longitudinal data on the *vertical* process of actually spending ERDF allocations within a region of the United Kingdom. The sheer number of participants testifies to the complexity of the partnership process there. All agencies eligible for Structural Fund support in Western Scotland are designated 'partners' in the implementation of the European funded programme. Revealingly, only six public sector authorities - alongside the United Kingdom central government and the Commission of the European Communities - participated in the first ERDF programme implemented in the west of Scotland between 1984 and 1987.[5] By 1994, however, there were over 140 'partners' involved in the process of consultation and

[4] It should be emphasised that the aim of the research is *not* to examine the 'optimal' assignment of policy tasks in this field. Armstrong (1983; 1985) considers the assignment of regional policy powers in the EC to such an end.

[5] As explained in chapter 5, 'Western Scotland' refers to the area covered by the post-1988 ERDF programme centred on the city of Glasgow.

negotiation surrounding the preparation and implementation of the regional development programme for Western Scotland. The model of policy implementation as 'incomplete contracting' developed in this thesis seeks to provide a tool for illuminating the complexity of ERDF programme implementation generally. Of course, the model developed herein is not unique in this regard. Nevertheless, this thesis seeks to show that the incomplete contracting model is both an empirically accurate and analytically useful contribution to the policy implementation literature.

Before elaborating the model of policy implementation as incomplete contracting, the remainder of this introductory chapter sketches some of the basic elements of the research design and theoretical orientation. **Section 1.2** considers briefly the current fashionableness of 'the region' as an analytical concept and emphasises the lack of research looking at the Structural Funds *from ~~a~~ European Commission perspective*. **Section 1.3** then explains the public policy approach adopted herein and introduces the policy under focus: European regional economic development policy. **Section 1.4** sets out the assumptions and introduces the main features of the analytical model developed fully in chapter 2, before **Section 1.5** specifies the research design and method of the study. The introductory chapter concludes (**Section 1.6**) with a concise statement of the structure of the chapters which follow. It is to the fashionableness of 'the region', however, that the chapter now turns.

1.2 'Regions' *In Vogue*

In a recent paper, Perry Anderson has written of 'the valorization of the region', whereby the notion of 'the region' now enjoys 'an unambiguously positive valency': 'today, affirmation of the value of regional loyalties and identities is all but universal, and endorsement of the principle of their political representation an increasingly prominent theme of official discourse in Western Europe' (1994: 9-10). Three general forces are deemed to have contributed to the emergence of the region as a point of political identification throughout western Europe: the uneven economic development of post-war capitalism; the modernisation and concentration of the means of mass communication (and the resultant cultural backlash); and the advent of the European Community. The wider implication is that the conventional form of government, the modern nation-state, is in a condition of economic, cultural and political crisis. However, much of the research currently focusing on 'the region' adopts the normative slant of assuming that regional solutions (in the form of regionalism and/or regionalisation) can, and more importantly *ought* to, provide a solution to the current problems of the state.[6] The importance of the regionalisation of the state in increasing a sense of democratic participation in government has been stressed in most European Union member states (and by European institutions themselves) in recent years.[7]

The widespread perception of a decline in the contemporary relevance of the concept of unfettered nation-state sovereignty, coupled with the rise of sub-state regionalism and nationalism in recent years have led to a thriving industry in studies of the 'regional dimension' of the European Community. The introduction to one authoritative account suggests that this academic interest can be explained by the fact that 'Europeanism and regionalism have represented twin challenges to the nation-state as a framework for making and delivering public policy', and that 'both have their roots in the problems of managing the modern industrial state, particularly to stimulate development and growth' (Keating & Jones 1985: 1).[8] With few exceptions (Cameron 1981; Kolinsky & Bell 1978), earlier accounts of regions and regionalism in western Europe generally paid little attention to the specific EC context of regionalist demands and tensions in territorial politics (Rokkan & Urwin 1982; Mény & Wright 1985; Rhodes & Wright 1987). Since the *relance* of the European Community in the mid-1980s, however, studies of regions and regionalism in western Europe have mirrored the rhetoric of regionalist parties by paying close attention to the potential of the EC, and the wider process of European integration, as stimuli for regional mobilisation (Kellas 1991a; Day & Rees 1991). Labasse (1991) and Bullmann (1994) have provided general accounts of regionalisation and regionalism in the EC, while Harvie (1994) has addressed the question of regional cultural identity in the European context. In short, by contrast with earlier accounts of regionalism, which largely ignored the European dimension, the European Community is now 'the most-remarked upon influence' in the current fashionableness of the region as an analytical concept (Anderson 1994: 11).

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[6] By way of example, while the new economics of 'flexible specialisation' is deemed to have provoked crises in those traditional, national economies organised along the lines of standardised mass production and mass consumption, solutions have been proposed in the form of high-productivity, high-skills responses organised at the level of the *regional* economy. Such studies often draw on the perceived success of regions in the 'Third Italy' (see Murray 1991: 18-19; Marquand 1989). Likewise, Stumann (1990) proposes the strengthening of *regional* cultural identity and *regional* political mobilisation as responses to political change in contemporary Europe.

[7] For a survey of regionalisation in Europe see Bennett (1989). For an interpretation of the challenges and opportunities to democratic government at the sub-state level presented by the European Community, see Bogdanor (1992) or Benington (1994), or the publications of the Local Government International Bureau (e.g. Local Government International Bureau 1989).

[8] The wider international phenomenon of sub-national government involvement in political and economic relations beyond the boundaries of the state has been examined in Duchacek (1986) and Duchacek, Latouche and Stevenson (1988).

It is in the notion of the 'Europe of the Regions' that the marriage between European institutions and regional phenomena is most famously celebrated. The focus of studies which endeavour to trace signs of an emerging 'Europe of the Regions' is invariably on the extent to which the participation of regional actors is enhanced in the process of European integration. Anderson himself suggests that the relationship between the processes of European integration and regionalisation may indeed be complementary: 'the emergence of supra-national administration, more distant from immediate experience than any previous public authority, has - as one would expect - put an understandable premium on sub-national administration, as a compensating mechanism. There has also been, one might argue, an element of collusion, as well as compensation, in the relationship between the two' (1994: 11; cf. Hainsworth 1993: 211). What is missing, however, is a focus on the extent to which the increased participation of regional actors, if indeed this has occurred, has affected the performance of European policies. It is accepted herein that the European Commission has actively sought the involvement of regional actors in the formulation and implementation of Community policies. Indeed, chapter 3 illustrates the extent to which the Commission struggled against member state governments in the first decade of the ERDF's existence to ensure the direct involvement of regional actors. However, chapter 2 suggests that the reason for the Commission's persistence in this regard may have been motivated not only by the desire to provide a democratic gloss to this policy area, but also because regional actors held much of the highly-prized information on regional economic problems and potential. How then did the confirmation of the partnership principle in 1988 impact upon the performance of European regional economic development policy? Is there a trade-off between 'democratic' involvement of regional actors and the extent to which the European Commission is able to implement its own regional policy priorities?[9]

The common bond between the vast majority of studies of the regional phenomenon in the European context is what might be termed their 'region-centric' perspective. The majority of contemporary studies focus on opportunities for regional mobilisation and the articulation of regional interests at the Community level (see Leonardi 1992). In this respect, the research presented herein swims against the tide of current studies. Questions of regional identity, regionalism and the mobilisation of regional interests are not addressed herein. By contrast, the research presented analyses the implementation of ERDF programmes *from the perspective of the*

[9] Murray has suggested that the strengthening of the principles of partnership and programming (whereby multi-annual development plans have now replaced the financing of individual projects) 'has pushed the responsibility for development down the line, and as a result has opened the way for a more pluralist approach to regional policy' (1992: 301). He does not, however, address the implications of this 'pluralist approach' for the European Commission's ability to shape regional policy.

European Commission.[10] The research aims to assess the extent to which the European Commission is able to shape the implementation of ERDF programmes. The vast majority of the current crop of studies of the Structural Funds (addressed in chapter 4) adopt the perspective of regional actors: the focus is overwhelmingly on the extent to which the reform of the Structural Funds has increased opportunities for regional actors to exercise influence in the formulation and implementation of such policy. Only the studies by Deeken (1993) and Hooghe (1993) view the Structural Funds explicitly from the Commission's perspective. While Deeken focuses on the 'policy entrepreneurial' role of the Commission in restructuring this policy area (to enhance the prospects for economic and monetary union), Hooghe primarily considers the internal bureaucratic politics of the European Commission with respect to the Structural Funds. Both studies are therefore focused on the horizontal politics of the supra-national level. Neither study presents significant data on the Commission's involvement in the vertical process of implementing Structural Fund policy. This research, by contrast, analyses Commission involvement at the regional level[11] to assess its ability to steer policy implementation. The conceptualisation of public policy adopted herein, and an introduction to the policy under analysis, should therefore be provided at this stage.

1.3 The Policy Context

This research draws on the tools of policy analysis in studying the implementation of ERDF programmes, highlighting the policy objectives of the European Commission in order to assess the extent to which current governance structures at the regional level facilitate the pursuit of those objectives.[12] As such, the policy analysis approach does not constitute a distinct 'theory', but it does allow some

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[10] The research framework developed herein endeavours to ensure a normatively neutral significance for the 'region'. Much of the contemporary writing on the Structural Funds assumes a positive normative significance for the involvement of regional actors, given the perceived importance of participation and democratisation in this field. While not denying the potential importance of regional actors in this regard, this research assesses the implications of strengthened 'partnership' for the European Commission's ability to shape regional development programmes. It should be emphasised, however, that adopting the perspective of the European Commission implies neither a positive nor a negative significance for the region.

[11] Of course, definition of the term 'region' is 'a game which can be played with almost infinite variations' (Holland 1976: 4). This research does not spend a great deal of effort playing this game, partly because it does not adopt a 'region-centric' perspective. The definition of the term used herein is simply the administrative definition adopted by the European Commission, referring to entities situated immediately below the level of the central state, granted political representation, the latter being ensured by the existence of an elected regional council, or failing this, by an association or a body constituted at regional level by the local authorities at the immediately lower level (Eurostat 1989). What this means in the Scottish context is addressed in chapter 5.

[12] The question of whether a satisfactory definition of 'policy analysis' exists is acknowledged, but left unexplored (see Lasswell 1951; Wildavsky 1979; Hogwood & Gunn 1984).

order to be placed on the policy process for analytical purposes, organising the process according to 'policy fields' or 'stages' in the policy process. A key distinction in the policy analysis literature is that between 'analysis of' and 'analysis for' policy (see Hill 1993: 3). This research is primarily concerned with 'analysis of' policy, in particular with analysis of what determines regional policy rather than providing data to improve the quality of such policy. Beyond this distinction, however, Dye's assertion that all definitions of policy analysis 'really boil down to the same thing - the description and explanation of the causes and consequences of government action' is accepted as the basic starting point (quoted in Ham & Hill 1984: 4). By contrast, the conceptualisation of 'public policy' utilised in this research framework is of greater significance and should be made explicit. What actually is public policy? This deceptively simple question must be addressed at the outset. As Heclo observes, 'policy is not, of course, a self-evident term' (1972: 84).

The key to understanding the policy process, and in particular a policy field such as the ERDF, is that policy is *more than just a single decision*. Consequently, G. K. Robert's classic definition of 'public policy' is instructive:

> A set of interrelated decisions taken by a political actor or group of actors concerning the selection of goals and the means of achieving them within a specified situation where these decisions should, in principle, be within the power of these actors to achieve (quoted in Jenkins 1978: 15).

Although this definition is not all-encompassing - for example it does not appear to acknowledge the difficulty of implementation when it assumes that it should be within the power of actors to achieve a set of goals - it has important strengths.[13] Most importantly, it stresses the fact that policy is more than just a single decision and that it typically involves a pattern of action over time involving many decisions (Jenkins 1978: 16). The discussion in chapter 2 below on the conceptual split between formulation/adoption and implementation as 'stages' in the policy process will return to this aspect of the definition. At this point, however, it should be emphasised that the framework developed herein accepts the notion of interaction between policy and action and subscribes to the following observation:

[13] Heclo's suggestion that 'a policy may usefully be considered as a course of action or inaction rather than specific decisions or actions' (1972: 85) has the additional benefit of emphasising the possibility of inaction. Moreover, he insists that such courses of (in)action have to be 'perceived and identified by the analyst' as policy is not 'a self-defining phenomenon': on the contrary, 'it is an analytic category, the contents of which are identified by the analyst rather than by the policy-maker or pieces of legislation or administration' (ibid.: 85).

> ... (T)here is a recursive relation between policy and action, with 'policy' itself representing an essentially dynamic set of constructions of the situation. In this case, we argue that it is a mistake to conceive of policy analysis as the study of identifiable things called policies which are produced, or crystallise, at a particular stage in the decision process (Gordon, Lewis & Young 1993: 8).

It is suggested that the 'recursive' interpretation of the policy process is particularly apt for the ERDF given the fact that the European Commission is not able to rely upon its own structure for implementation within each member state. By contrast, it is obliged to rely on local and regional level actors, within an implementation framework which, as will be shown for the UK, is tightly constrained by central government. When, therefore, does policy emerge? It would be a gross simplification to assume that policy is crystallised when the Structural Fund Regulations are adopted in the Council of Ministers, since, as Elmore reminds us, 'decisions are not self-executing' (1979: 605). Does policy crystallise when the regional development plan for an eligible region is submitted by central government to the European Commission? In the UK, does it emerge in the negotiations between the European Commission and the Department of Trade and Industry over the contents of the plan? Does it emerge when the European Commission publishes the so-called 'Community Support Framework' (CSF) setting out the strategy for economic development in the region? Does it emerge when local actors in an eligible region bring forward projects for consideration within the framework of the CSF? Does it emerge when local actors barter among themselves and with central government to decide which lists of projects will receive support? This list of questions could be extended, but, the crucial point to grasp is that policy is not a static concept and does not crystallise at any of these stages in isolation. It emerges as a result of the complex (recursive) interaction between all these stages. ERDF policy is constituted by a set of interrelated decisions over time, spreading across all stages of the process, from initial decisions in the Council of Ministers on the contents of the Structural Fund Regulations to the 'nuts and bolts' of building a road (for example) as a project receiving ERDF support under a programme in an eligible region. In the same way, the search for the 'real' policy-makers is likely to prove fruitless if policy emerges from the interaction of a multiplicity of actors across time.

Given the fluidity which lies at the centre of this definition of public policy, the question must then be asked whether is it in fact possible to observe, and hence analyse, any specific policy? Majone suggests that it is, since, although policies are constantly changing, 'the most immediate experience of policy, both for actors and observers, is a sense of continuity through time' (1989: 150). This continuity is of great importance for the policy analyst as 'without some stability and consistency in actions and expectations it would be impossible to detect any pattern in a stream of apparently disconnected decisions and discrete pieces of legislation and administration' (ibid.: 150). What then are the elements of stability and consistency that allow us to identify and observe regional policy? This question must be addressed before the implementation of such policy can be conceptualised.

1.3.1 *What Does a Regional Policy Look Like?*

As Majone suggests, both continuity and change should be inherent in our conception of policy:

> What gives a policy stability is that some of its values, assumptions, methods, goals, and programs are held to be central and only to be abandoned, if at all, under the greatest stress and at the risk of severe internal crises. What gives the policy adaptability is that many values, assumptions, methods, goals, and programs are disposable, modifiable, or replaceable by new ones (1989: 150).

To draw an analytical distinction between the relatively rigid part of a policy and its more flexible components, Majone develops the visual metaphor of 'core' (the stable part) and 'periphery' (the flexible part). Although the core represents the stable, central principles of the policy, this is not to suggest that it is immutable. The core can indeed be modified, but changes are more gradual than is the case with the elements of the periphery that are the policy's transitory end-products. Radical transformation or abandonment of the core would mark a major change in policy - policy revolution rather than policy evolution. Such radical transformations of the central goals of policy are comparatively rare, and have been labelled as shifts in the 'policy paradigm' by Peter Hall (1993). He suggests that, while the way in which a policy instrument is employed may change frequently ('first-order change'), the instruments themselves usually change less frequently ('second-order change'). Policy paradigm shifts ('third-order changes') are relatively uncommon (ibid.: 281-287), and can be compared to shifts in the policy core to use Majone's terms. These concepts are particularly useful in charting the shape of regional policy over time.

Establishing conceptually the 'core', the 'periphery', and the main positive and negative strategies adopted to translate the general principles of the policy core into action leads us a long way to discovering what a regional policy looks like.[14] The *core principle* of regional development policy in general is that there is a role for the

[14] The terms 'core' and 'periphery' are used in this context as tools to conceptualise the nature of public policy and should not be confused with the conventional use of core and periphery as geographic or economic terms when discussing regional policy.

public sector, on economic and social grounds, to intervene in the market to reduce spatial economic disparities which arise as a consequence of market forces. In other words, there is a role for government in attempting to influence the geographical distribution of economic activity. As stated in a review conducted for the OECD, regional development policy is based upon the notion that 'governments have both the duty and the power to guide ... change in the general interest, and not simply to intervene with palliative measures in particular places' (Wadley 1986: 46). When did this core principle emerge?

In the seminal text on regional policy in Britain, McCrone begins by arguing that the problem of regional economic disparities is a natural accompaniment to economic development (1969: 13). Changes in industrial structures and patterns of trade have taken place to the advantage of some regions and the disadvantage of others since the time of the industrial revolution. However, the idea that such forces could be controlled by government policy - in the conceptual terms introduced above, the emergence of the core principle - is of relatively recent origin. Although early efforts to intervene in the market to address regional economic disparities can be traced in the UK to the *Special Areas (Development and Improvement) Act 1934*, regional anti-disparity policy emerged in western Europe principally in the post-war period as an extension of Keynesian macroeconomic demand management.

While the core principle of regional development policy remained constant in the post-war era, the way in which the general principle of state intervention was actually carried out - the periphery of regional development policy - varied between states and over time. As the above mentioned OECD study explained, the obvious fact that different states have a range of governmental systems meant that the delivery of regional policy varied considerably. The emphasis placed by a government on regional policy would normally reflect that government's position along the spectrum between total *laissez faire* and full command economic policy (Wadley 1986: 46). And yet, further subtleties emerge in the policy periphery. Government intervention of a positive nature can be at a macro- or micro-economic level, can be driven primarily by central or regional administrations, and can consist of incentives or disincentives to investment.[15] The key point to note is that such variations in the exact configuration of the policy periphery need not imply a threat to the centrality of the core principle.

[15] The 'negative strategy' of limiting company location in high-growth, low-unemployment regions through disincentives such as requiring companies to apply for development certificates has been relatively rare compared to the 'positive strategy' of offering incentives to locate in low-growth, high-unemployment regions. The political feasibility of adopting such a 'negative strategy' at the European level to achieve regional development goals, particularly in the context of the principle of the free movement of capital, is very low indeed. See Jarrett (1975) for an early account by an official of DG XVI of the desirability of such a policy of disincentives at the Community level.

Following this distinction between policy core and periphery, it is widely argued that the policy periphery in the field of regional economic development experienced a profound shift in the 1980s. In short, emphasis shifted from centrally-driven 'hardware provision' (e.g. the construction of basic infrastructure, roads, advance factory buildings) with the aim of influencing the location of growth activities, to locally-driven 'software provision' (e.g. research and development projects, business support measures, training schemes) with the aim of promoting development from within the local economy. Stöhr distinguishes between regional development policy *from above* and policy *from below* (1990). The former refers to traditional regional policy with its emphasis on centrally determined redistributive strategy, through the spatial allocation of public infrastructure investment, the spatial differentiation of selective incentives for private activities or through the spatial allocation of nationalised activities. In recent years policies 'from below' have been more common, designed by local actors to enhance the entrepreneurial climate of local labour markets from within, usually through the development of Small- and Medium-sized Enterprises (SMEs) (see Murray 1991). To quote Stöhr, in the 1980s there emerged 'an emphasis on indigenous business creation which replaced smokestack chasing in most areas' (1990: 37-39).

This shift in emphasis has been hailed as the emergence of a 'new paradigm' of regional economic growth policies across western Europe (Velasco 1991).[16] In part, the emergence of the 'new paradigm' can be explained by the fewer number of transnational corporations floating around Europe with branch plants to 'parachute in' to depressed regions (Clout, Blacksell, King & Pinder 1989: 201), and, in part, by the wider shift towards supply-side economic policies in the 1980s.[17] Regional economic policy was no exception as central governments turned from interventionist to market-led approaches across a variety of policy areas. As a result of the general shift to supply-side economic policies and the demise of Keynesianism (not only in its spatial form), the finances allocated to regional policies were progressively cut-back in the member states of the European Community throughout the 1980s. In most EC member states, however, the role of intervention in the market to reduce geographical economic disparities was taken up by actors in the regions themselves. Following the above conceptual distinction, this shift in emphasis in regional policy can be viewed as a change in the configuration of the policy periphery while the core principle of government intervention remained largely unchanged, albeit that the governmental

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[16] The significance of this shift for the ERDF and its influence on the European Commission's efforts to promote an 'integrated approach' to development at the regional level are analysed in chapters 3, 4 and 5.

[17] Bennett and Krebs (1991: 8-13) provides a useful summary of the dynamics underlying this shift in the periphery of regional policy.

level involved shifted in most west European states from the central to the regional and local level.[18] In other words, the core principle of regional policy was retained but pursued most visibly through regional and local activism, often with the encouragement of central government.[19]

The UK represents the member state of the EC in which state interventionism in the economy was trimmed to the greatest extent during the 1980s (see Appendix 2 for an account of the domestic regional policy framework in the UK). Central government in the UK not only reduced its own expenditure and level of intervention in the economy, but also restricted the capacity of local government to intervene in the regional economic development process. The core principle of regional development policy was anathema to the New Right governments of the 1980s in the UK. As Martin and Tyler explain, the main premises of 'spatial Keynesianism' were rejected in line with the Thatcherite focus on monetary constraints, supply side economics and free market liberalism (1991: 8). The existence and persistence of markedly higher unemployment in the regions of the UK was re-interpreted in terms of 'institutional rigidities' in those areas. Strong unionisation in the regions experiencing de-industrialisation was deemed to maintain real wages in excess of that warranted by productivity and local labour market conditions, thereby creating unemployment and preventing investment. Moreover, in a reversal of the traditional notion of 'work to the workers', the labour force in the depressed regions was criticised for its lack of geographical mobility. Far from encouraging local or regional actors to take on the burden of addressing these problems - as was taking place in other member states of the EC (Mény & Wright 1985) - *central government in the UK viewed local government as part of the problem.* Local authority expenditure was 'crowding out' the private sector and hence a weakening of the autonomy of local government was justified in terms of the search for monetarist and free-market solutions to the problems of the UK economy (Martin 1986: 252-258; Anderson 1990). In short, in the UK the core principle of regional economic development has been eroded and government is deemed to have no role in planning: economic development is free-market, private-sector led and foresees no role as such for the public sector.

[18] Velasco's suggestion that the shift in emphasis amounted to a new paradigm (1991) is questionable, if by a shift in the policy paradigm he means 'third-order change' in policy. Rather, using Hall's (1993) conceptualisation, 'second-order changes' took place as instruments were overhauled, while the core policy goals remained intact.

[19] It has been suggested that this shift of responsibility from central to sub-national actors amounts to 'the decentralization of penury' (Mény & Wright 1985: 7). Central governments, after decades of disappointing policy results and the demise of Keynesianism, combined drastic expenditure cuts on social and economic programmes with a shift in the burden of responsibility to local and regional actors. At the same time, this decentralization was often accompanied with 'rhetorical flourishes about the values of local democracy, initiative, and autonomy' (Anderson 1991a: 67).

The widespread decline of *centrally-driven* regional policy in western Europe, and the decentralisation of regional policy functions, occurred at the same time as an active regional policy was being developed at the European Community level. The debate surrounding the reasons for this increase in European level regional policy expenditure has been alluded to above, and is considered briefly below. At this point, however, it is more important to highlight the tensions which arise when the European Commission seeks to shape strategic regional development programmes involving public actors in the UK. As central government officials dealing with ERDF programmes acknowledge, the European Commission attempts to super-impose public-sector led regional development strategies on a vacuum. It is commonly suggested that the Commission system of regional development planning is based largely upon the *Contrats de Plan* approach of French regional planning (Pontier 1985; Waniek 1992). This system of regional planning finds no counterpart in the UK.[20] How this conundrum is solved when there is such strong disagreement between the UK government and the Commission over core values is one empirical focus of this thesis.

This mismatch, not just in the tools of the policy periphery but in the core values of that policy, poses a question of wider relevance for policy implementation in the European Community. When the Commission has a key role in policy development, and the core value of that policy differs from the member state who has to implement the policy, what is the outcome in terms of institutional procedures and policy results? This question is addressed below in the field of European regional development policy as it is implemented in the UK. European regional policy itself should now be introduced at this point.

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[20] The House of Lords Select Committee on the European Communities noted in 1984 that the regional planning structure which had existed in the UK in the 1960s and 1970s, prior to the existence of the ERDF, was progressively abolished at the time when the European Commission sought to promote such a structure in the field of European regional policy: 'evidence has pointed to the striking contrast between the steady dismantling of the regional planning apparatus, including the demise of the Regional Planning councils in 1979, with the rising demands from the Community for increasingly sophisticated regional planning strategies, programmes and statistical analysis' (House of Lords 1984: xxxi). This contrast is examined in depth in chapter 5.

1.3.2 *Regional Policy at the European Level*[21]

Although regional economic development objectives had been indirectly addressed through other Community policy instruments prior to its creation, the European Regional Development Fund was not created until 1975, almost two decades after the Treaty of Rome. The other two Structural Funds - the European Social Fund (ESF) and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) - existed prior to 1975. The ESF had been established in 1958 to improve the employment opportunities of workers across the Community by part-financing vocational training projects. When it was revised in 1971, the ESF included a commitment to direct assistance toward regions experiencing acute employment problems. Similarly, the Guidance Section of the EAGGF, the structural component of the Common Agricultural Policy (CAP) with the aim of assisting the process of economic diversification in agricultural areas, provided financial assistance for disadvantaged agricultural regions (Wallace 1977: 139). Alongside these grant providing instruments, loans were also made available in problem regions through bodies such as the European Investment Bank (EIB) and the European Coal and Steel Community (ECSC). Although policy instruments such as the ESF, and EIB and ECSC loan schemes are considered in the empirical chapters of this research, the focus is predominantly on the ERDF. At this point, therefore, some explanation should be given for the decision to focus on the ERDF.

The reasons for focusing on the ERDF are primarily fourfold. Firstly, and at the most basic level, the ERDF is the largest of the Structural Funds in terms of financial resources. The funding package agreed for Strathclyde (in western Scotland) for the period 1988-1992 consisted of £232 million ERDF support as compared to £42 million ESF. Secondly, and more importantly, the problem of additionality, or central government's refusal to increase expenditure in an eligible region in accordance with the amount of Structural Funds assistance received, has been more acute with the ERDF than in the case of the ESF. A focus on the ERDF therefore allows greater attention to be paid to this crucial area of political contention between the European Commission and UK central government. Thirdly, a key focus of this research is on

[21] As the then Director-General in DG XVI told the House of Lords Select Committee on the European Communities in 1984, the ERDF by itself does not constitute Community regional policy, but 'just an instrument towards a policy' (House of Lords 1984: 134). By contrast, Community regional policy also involves efforts to co-ordinate other policies with regional implications. This point has been recognised by many academics, such as Preston (1988) and Armstrong and Taylor (1993). Nevertheless, as Wise and Croxford point out, the ERDF constitutes 'the financial heart of Community regional policy' (1988: 163). Focusing on the 'vertical' process of ERDF implementation, this research uses the term EC regional policy in the specific sense of the ERDF. Although it is borne in mind that the ERDF constitutes only one element of the Community regional policy 'periphery', to use the concept elaborated above, the ERDF is still the major single element of that policy.

the complicated issue of 'policy objectives' and the extent to which these are contested by the variety of participating actors. To analyse two policy instruments with objectives which are not the same would complicate the research yet further. Finally, and perhaps most importantly, the methodology presented herein is actor-driven and places the Commission Directorate-General for Regional Policies (DG XVI) at the centre of the research question. To consider two policy instruments would therefore involve a focus not just on DG XVI, but also on the Directorate-General for Employment, Industrial Relations and Social Affairs (DG V), thereby increasing the number of actors involved and multiplying the potential number of objectives to be taken into consideration.[22] For these reasons, although other instruments are considered, the focus is predominantly on the ERDF.[23]

It is often pointed out that regional policy arrived very much as a latecomer among European Community policies. As is shown in the following chapter, it was not an absence of regional disparities that explained the lack of an explicit regional policy at the Community level before 1975. McCrone's suggestion that regional disparities as an economic fact pre-date their emergence as a 'political' problem (1969:13) applies equally to the EC as to individual states. The regional fund was created in 1975 (and not in 1965 for example) as a consequence of the first enlargement of the Community in 1973. More specifically, it was clear that the largest element of the EC budget - the Common Agricultural Policy price support framework - had little to offer the United Kingdom, which was therefore set to become a major net contributor. Consequently, the regional fund was established as 'clearing house' or budgetary redistribution mechanism. The Fund was therefore usually explained in its early years in purely intergovernmental terms, almost completely dominated by member states with little role for the Commission. Providing a thorough review of the secondary literature on the ERDF from the mid-1970s, the aim of chapters 3 and 4 of this research is to give an account of the evolution of Community regional policy in the context of the changing nature of theorising about European Community policy-making.

Alongside the doubling of the Structural Funds budget in 1988, new principles underlying the implementation of the funds were agreed. In general, the Commission (more precisely, DG XVI) was given more discretion over funding. Marks, however,

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22 Despite the moves in recent years to integrate the three Structural Funds, Laffan rightly points out that they have developed at different speeds under various legal frameworks, and that they are still administered as separate entities within the European Commission (1989: 44).

23 Similarly, the focus at the European level is on the European Commission and not on other bodies such as the Council of Ministers, the European Parliament, the Court of Auditors, the Committee of the Regions or the Economic and Social Committee. The sparse attention devoted to these organisations herein is a reflection of the focus adopted here on implementation, and the nature of the involvement of the European Commission behind the outer-shell of the member state.

suggests that since 1989 the Commission has played 'an autonomous and powerful role in spending' and that 'when one lifts the lid on the practice of structural policy it is clear that the Commission has played a vital role in designing the institutional framework. Within that framework, the Commission is the key actor in the process of policy making and implementation' (1993: 399). For Marks, the implementation of Structural Fund programmes can be conceptualised as an example of '*multilevel governance*, a system of continuous negotiation among nested governments at several territorial tiers - supranational, national, regional and local - as the result of a broad process of institutional creation and decisional reallocation that has pulled some previously centralized functions of the state up to the supranational level and some down to the local/regional level' (Marks 1993: 392). While acknowledging the utility of 'multilevel governance' in drawing attention to the current interdependence of actors in the structural policy process, it is suggested in chapter 4 below that Marks does not provide sufficient data on the 'vertical' process of implementation in the UK to allow him to draw such broad conclusions. By contrast, the simultaneous 'decisional reallocation' upwards to the European Commission and downwards to local and regional actors identified by Marks reflects the dynamics of the 'Europe of the Regions' discourse.

The model developed herein is designed to provide a tool with which to look behind the 'outer-shell' of the member state to examine the complexities of policy implementation involving the European Commission at the regional level. The model not only goes into more depth than Marks' conceptualisation of multilevel governance, but also allows for a sharper analysis than the rather uni-dimensional accounts of neo-functionalism or intergovernmentalism considered in chapter 3. It is to the key assumptions and the basic contours of the incomplete contracting model that this introductory chapter now turns.

1.4 The Analytical Model

Models in the social sciences can never be exhaustive, nor can they lay claim to being unique in their explanation of complex phenomena. Dowding suggests that a model is 'a description of a situation which picks out certain features which are important to understanding that situation' (1994b: 112). The emphasis on *certain* features is crucial: a model would be over-stretched were it expected to highlight all the features relevant to a given situation. This fact is perhaps best illustrated by Thompson, Frances, Levacic and Mitchell who treat a 'model' simply as 'a kind of mapping device' (1991: 2). They use the analogy of 'a torch emitting a beam of light', and point out that by shining their 'model-torch on the complexity of social existence', they 'only expect it to highlight some of that complexity' (ibid.: 2). This thesis does not seek to achieve the impossible and provide a floodlight illuminating all of the features relevant to the relationship between the European Commission, central and regional actors in the implementation of ERDF programmes. Rather, it seeks to model the most important features and thereby throw some light on our understanding of the European Commission's ability to steer the process of implementation. The basic features of the model that is adopted and developed herein should be outlined at this point.

The literature of policy implementation provides the broad backdrop to this thesis. Chapter 2 presents a review of the policy implementation literature in both its 'top-down' and 'bottom-up' versions, which shows how the methodological sophistication of research adopting an implementation perspective has advanced since the early boom following the publication of Pressman and Wildavsky's *Implementation* (1973). The main conclusion of the review, however, is that the policy implementation literature *per se* is not particularly useful in explaining how one actor attempts to steer a complex process of policy implementation involving a multitude of actors. In the case of the European Regional Development Fund, there is descriptive power in both the top-down and bottom-up approaches. However, much of the debate is simply normative: policy *ought* to be implemented from the bottom-up or from the top-down. This thesis therefore concurs with O'Toole in his statement that 'the study of policy implementation stands in need of additional assistance in rendering theoretically sensible the important issues that are the subjects of investigation' (1993: 28). Hence, it draws additional assistance from theories of economic neo-institutionalism in order to develop a new conceptual framework that attempts to integrate the key concerns of both the top-down and bottom-up approaches to policy implementation.

The starting point of the model developed herein is the adoption of *an exchange-based conceptualisation of power*. Macneil explains that exchange, in social, political or economic forms 'involves a voluntary transfer of resources between actors on the basis of at least some kind of reciprocity' (1990: 152). As such, exchange is one way to resolve the very common problem that 'one actor stands in the need of the cooperation of other actors, if he wants to realize his goals and interests' (ibid.: 152). The concept of exchange has been most clearly developed in studies of state-interest group relations. As shown in chapter 2, it is widely acknowledged in that literature that the traditional, hierarchical state no longer has the capacity to act unilaterally to address the increasingly complex problems of advanced industrial economies. Rather, in an era of governmental 'overload' the state now relies on the assistance of organised interests for the provision of policy-related expertise and often depends upon them for the implementation of policy. In essence, the exchange-based conceptualisation of power suggests that power-dependence relationships characterise contemporary state-interest relations. Power is thus determined by the exchange of resources.

Rhodes points out that the key concept in the analysis of power and exchange is *dependence*. Quoting Blau's perceptive definition of that concept, he explains that, 'by supplying services in demand to others, a person establishes power over them. If he regularly renders needed services they cannot readily obtain elsewhere, others become dependent on and are obligated to him for these services, and unless they can furnish other benefits to him that produce *interdependence* by making him equally dependent on them, their unilateral dependence obligates them to comply with his requests lest he cease to continue to meet their needs [emphasis added]' (1980: 299). The resources exchanged between organisations can be of many forms: services, capital and workers are perhaps most obvious, but political legitimacy itself is also a valuable resource (Marin 1990a). It is suggested in chapter 2 below that exchange relationships and interdependence are not simply evident in the relationship between the state and functional interest groups. Rather, similar phenomena are apparent in the process of policy implementation and often involve the state and other territorial interests.

A key analytical focus of this thesis is the examination of the nature of the exchange relationship between the European Commission, central government and sub-national actors in the implementation of ERDF actions in the UK. In this case, exchange relationships emerge as a result of the fact that the European Commission cannot implement directly its own policies. Rather, it *part-finances* projects brought forward by sub-national actors. These actors exchange a steady supply of projects for co-financing (as well as information and local expertise) for some predictability in financial flows. Consequently, they are not strictly subordinate to central government or the European Commission. As bottom-up approaches to policy implementation teach us, they therefore enjoy some discretion in the implementation of ERDF actions. However, these exchanges are not concentrated solely at the ultimate stage of allocating finances to projects.

It is suggested in chapter 2 that traditional approaches to the study of implementation, in particular the top-down versus bottom-up dichotomy, inadvertently obscure the fact that exchanges are an *ongoing* feature of the relationship between actors participating in arenas of policy-making and implementation. By focusing primarily on the ability of central actors to shape the implementation process in advance through legal means and the deployment of political resources, top-down approaches do not appreciate the significance of the motivations of local actors. These motivations mean that the objectives of local actors need not be aligned with central objectives. Local actors may therefore deploy their resources in the policy-execution phase in an opportunistic manner, thereby displacing the original goals of the policy decision. By contrast, bottom-up approaches to policy implementation focus at the level of the motivations of local actors and hence their room for uncontrolled discretion in the phase after a policy decision has been taken. Consequently, such approaches to the study of policy implementation do not address the significance of the ex-ante co-ordination of actors, the exchange of localised information for the ability to influence the shape of the original policy decision. What is required is a framework by which to integrate those conceptual 'phases' of policy-making and implementation, thus focusing on the ongoing nature of the exchange relationship.

Theories of economic neo-institutionalism, and the 'economic organisation theory' of Williamson (1985) and Milgrom and Roberts (1992) in particular, provide the conceptual tools with which to attempt this integration. Focusing on the transfer of goods or services from one person or organisation to another (usually by exchange), these authors highlight the costs of negotiating and carrying out *transactions*. The 'transaction costs' approach to economic organisation treats the basic unit of analysis as the transaction, suggesting that organisational forms are driven by the intention of rational actors to economise on the costs of transacting. The main tasks of economic organisation are to *co-ordinate* the actions of participants to the transaction so that they form a coherent plan, and also to *motivate* the participants to act in accordance with the plan (Milgrom & Roberts 1992: 49). Hence, by focusing on the transaction as the basic unit of analysis, economic organisation theory provides a means by which to emphasise both the task of co-ordination and motivation. The thesis seeks to develop a model of policy implementation that borrows some of the theoretical insights of economic organisation theory and hence contributes to conceptual advancement in the study of policy implementation.

Under the model developed herein, policy implementation is conceptualised as a process of *contracting*. The concepts of 'transaction' and 'contract' are closely linked. As Majone points out, in the language of new institutionalism a contract is 'any agreement (not necessarily binding) among actors who recognize their mutual interests and agree to modify their behaviour in ways that are mutually beneficial' (1994: 13). Contracts do *not* require formal, legal status to be considered as such. The agreement to exchange resources (in whatever form) can be conceptualised as a contract, irrespective of whether or not the contract takes a written form. Policy implementation as a process of contracting therefore allows for an ongoing exchange of resources. It focuses on the exchange as the primary unit of analysis rather than on the ex-ante legal structuring of the exchange relationship or the ex-post motivations of lower level actors. Markets, hierarchies and any other form of governance structure (including policy networks) can thus be conceptualised as different contractual responses to the problem of co-ordinated action.

At this stage, the crucial point to note in this brief introduction to the model of policy implementation developed fully in chapter 2, is that *complete contracting* is practically impossible to achieve. That is, when actors recognise their mutual interests and agree to modify their behaviour in ways that are mutually beneficial to paraphrase Majone, they cannot foresee at the time of agreeing to transact all the possible contingencies that might occur during the course of the relationship. Complete contracting would require, '*inter alia*, that the partners be able to foresee and accurately describe all the relevant contingencies that might arise in the course of the contract, and that they be willing and able to agree upon an efficient course of action for each possible contingency. Also, each partner should be able to determine whether the contract's terms are being met and, if they are violated, to enforce the agreement [emphasis in original]' (1994: 13). Economic contracts under real conditions can rarely, if ever, take such a complete form. By extension, policy implementation as complete contracting is equally unlikely. The requirements of complete contracting can never be met under actual contracting arrangements for a number of reasons: foremost among these are the *bounded rationality* and the *opportunism* of actors. In the model of policy implementation as incomplete contracting developed in this study, the two primary assumptions are that actors are boundedly rational (and they know that they are) and that they act opportunistically. These assumptions underpin the analysis presented herein. Therefore, before turning specifically to the nature of incomplete contracting and how it helps us to conceptualise the process of policy implementation, the assumptions should be explored in some detail.

1.4.1 *The Assumption of Opportunism*

The first key assumption of the model of policy implementation as incomplete contracting, which should be made explicit at the outset, is that political actors behave in an essentially opportunistic manner. 'Opportunism' in this context is defined as 'self-interest seeking with guile' (Williamson 1985: 47). The 'with guile' element of this definition is vital, as it suggests that actors will adopt strategies to pursue their own self-interest. As such, this definition replaces subtle for simple self-interest seeking. Williamson explains that simple self-interest seeking implied that actors 'fully and candidly disclosed their positions upon inquiry, state of the world declarations will be accurate, and execution is oath- or rule-bound' (ibid.: 49). By contrast, his own definition of opportunism 'refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse. It is responsible for real or contrived conditions of information asymmetry, which vastly complicate problems of economic organization' (ibid.: 48). In other words, opportunistic actors may not provide all the relevant information required at the outset to allow an effective contract to be drawn up. On the contrary, they can use this information as a strategic resource in seeking self-interest.

It is not suggested herein that all political actors act opportunistically all of the time, nor that political actors act in such a way to the same degree. Moreover, it is not assumed that the self-interest seeking of political actors is governed by calculations of personal wealth maximisation. Nevertheless, as Czada and Windhoff-Héritier point out, political action implies 'that political actors have a particular awareness of individual and collective goals, which they seek to make congruent' (1991: 11). The motivations of actors arise not simply as a result of calculations of individual gain, but as a consequence of the institutional arrangements framing the actions.

The opportunism of real actors has profound implications for the way in which contracts are arranged. As Williamson points out, opportunism is a source of uncertainty and limits the ability to specify in advance the actions of those party to a contract. In the absence of opportunism, it would be easier to specify 'complete contracts', since 'this uncertainty would vanish if individuals were fully open and honest in their efforts to realize individual advantage (simple self-interest seeking) or were fully subordinate, self-denying and obedient' (1985: 49). In other words, were it not for opportunism, future behaviour could be governed by general legal rules as actors agreed ex-ante the action to be undertaken under every possible circumstance.

Of course, Williamson's assumption of opportunistic behaviour is obviously not universally accepted. Sabel labels such an approach 'the science of suspicion', pointing out that it 'makes the pursuit of self-interest and the fear of deception (because the others are pursuing their own interest, too) the spring of individual action and the guiding motive of institutional construction' (1993: 65). He goes on to claim that 'the presumption of generalized opportunism in exchange relations is empirically dubious ... and theoretically presumptuous. There are more comprehensive countertheories that assert the possibility of creating trust in a wide range of social settings without presuming that we are in general trusting rather than opportunistic' (ibid.: 81). Trust is indeed a central concern of this thesis. Empirically, the case study finds evidence of the evolution of trust amongst the partnership implementing ERDF actions. Conceptually, the model places emphasis on the importance of shared beliefs, trust, and reputation. Moreover, the concluding chapter even presents some ideas on how these can be strengthened. The assumption of opportunistic behaviour does not therefore imply that the partnership for the ERDF implementation in Western Scotland exists in a Hobbesian 'state of nature'. By contrast, the assumption of opportunism is commonly made in studies of policy implementation.

The assumption that individual motivations, and hence opportunism, are important, is wholly consistent with the bottom-up approach to policy implementation, which emphasises the incentives determining whether local actors exercise their discretion in line with central policy objectives. For example, Barrett and Fudge insist that implementers are not 'passive agents on the receiving end of policy', but 'semi-autonomous groups actively pursuing their own goals and objectives (i.e. engaging in self-interested behaviour) which may or may not be in accord with those of the policy-makers' (1981: 23). It need not be the case that such incentives are linked to individual gain. For opportunism to arise, it is enough that there are simply different organisational objectives in a given policy field. In fact, the idea of objectives stands at the centre of policy analysis. As Hogwood argues, 'almost by definition, policy is concerned with *purposive* action, that is action which is designed to carry out certain objectives' (1987: 4). Of course, even within organisations goals are complex and differentiated and cannot be reduced to a consistent and clear set of objectives. In a public policy involving many actors then, it may be the case that the objectives of the policy are unclear or inconsistent. Moreover, publicly stated objectives and real objectives are often not the same and there is rarely unity among actors over objectives. And yet, the idea of motiveless policies is difficult to comprehend: public policies 'are not things that just happen, they are the results of conscious action' (Hogwood 1987: 4).

To quote Hanf and O'Toole, 'the dominant feature of the public sector is the relationship between many organized actors with separate interests, goals and strategies' (1992: 167). The problem of motivating public actors in line with policy intent is hence that of aligning different interests. As suggested above, legal remedies are of little use. Interdependent actors want to keep their relationship going, and hence the development of trust is generally valued. Williamson thus suggests that 'transactions that are subject to *ex post* opportunism will benefit if appropriate safeguards can be devised *ex ante*. Rather than reply to opportunism in kind, therefore, the wise prince is one who seeks both to give and to receive "credible commitments". Incentives may be realigned, and/or superior governance structures within which to organize transactions may be devised' (Williamson 1985: 48-49). Some rather more normative suggestions as to how 'the wise prince' may seek to align incentives are presented in the concluding chapter of this thesis.

It is also worth emphasising at this point that in the case of the ERDF examined herein, actors pursue a number of competing objectives, and that they act with guile to pursue their own interests in the implementation process. As the Commission itself has pointed out, partnership 'brought together authorities which did not necessarily share the same views at the outset' (quoted in Marks 1992: 5). More generally, economic development has been highlighted as a policy field where ambiguity of objectives is the norm and symbolic politics are common (Booth, Pitt & Money 1982). Keating suggests that 'development policy is not a rational, goal-oriented activity but a political process in which diverse goals compete and outcomes are complex and unique to localities' (forthcoming). Nevertheless, economic development actors continue to participate in the policy as it allows them at least to claim that 'something is being done' to address regional or urban problems. The symbolic importance of economic development policy should not be under-estimated (Edelman 1964; 1971), despite the disagreement amongst participating actors concerning the true objectives of such policy. The lack of unity concerning the real objectives of European regional development policy among the key actors involved in the process may mean that there is very little common 'purposive action' when we look behind the general statements of policy.

In the case of the ERDF, it is certainly the case that objectives are clear and consistently stated and that there is apparent unity over these stated objectives. At the most general level, Article 130A of the Single European Act states that the 'Community shall aim at reducing disparities between the various regions and the backwardness of the least favoured regions'.[24] This objective is reaffirmed in the Regulations governing the implementation of the ERDF. At the implementation stage the programme document sets out clear objectives for all participants. In declining industrial regions this is invariably stated as the reduction of unemployment and the promotion of wider economic development. It could be argued that this is a very general objective, but the programme documents also set out priorities for achieving this objective and are intended, in the strictest sense, to constitute strategies for regional economic development. All actors (local, central, and supranational) participate in the preparation of this strategy and all are fully aware of its stated objectives. Whether these stated objectives are the 'real' objectives of the participants is less clear.

Of course, if stated and real objectives are not the same, the task of the policy analyst becomes highly complicated. Without direct participation in a policy field, the unearthing of 'real' objectives is not straightforward. Moreover, given the potential for

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[24] As shown in chapter 4, it was not until the time of the Single European Act that the ERDF took its place in the Treaties alongside the other Structural Funds.

goal differentiation within organisations, even direct participation could provide a one-sided bias of the 'true' goals of policy actors. This is a problem of research design that cannot be avoided when studying policy implementation. The symbolic function of many policies is such that they cannot be considered purely on their stated original goals (Ingram & Mann 1980: 20). Moreover, conflicts among actors over the 'true' objectives of a policy mean that, for the policy analyst, implicit assumptions of 'clear and stable policy intent' are based on a simplistic understanding of implementation and are likely to lead to a 'fundamental misunderstanding of the policy process' (Baier, March & Saetren 1986: 169). Assumptions concerning objectives should therefore be made explicit, always bearing in mind the ambiguity of the context in which those objectives are framed. In the case of the ERDF, it is assumed herein that although the programme objectives of job creation and economic development are of some importance for all participants in the implementation process, actors are likely to behave opportunistically to pursue their own interests.

However, it is a key working hypothesis of this research that in the case of the European Commission (DG XVI) the stated objectives of economic development (as expressed in the regional development 'contract') come closest to the real objectives. This view is supported by an earlier attempt to study the implementation of the ERDF which did not even question that the aim of the Commission was 'to influence long-term economic developments' (Coates & Wallace 1984: 164). By contrast, it is suggested that there are strong incentives for the other actors in the implementation process in the UK to behave in an opportunistic manner, such that the overtly stated policy objectives are in fact implicitly modified during the implementation process. Greater attention is given to the key actors in chapter 5, but at this stage, the potential conflict in objectives should be identified.

Although central government states publicly that it supports the ERDF programme objectives, it is argued herein that the real objective of central government in the UK is to maximise ERDF resources in order to offset the UK's net contribution to the EC budget. As suggested above, the ERDF was set up in 1975 following the enlargement of the Community in the early 1970s precisely because the UK stood to gain little from the Common Agricultural Policy price support mechanism and would be a major net contributor to the EC budget in the absence of a countervailing transfer of resources (Wallace 1977). Ingram and Mann remind us that governments often lack 'the power and will to address problems straightforwardly; thus roundabout means are chosen' (1980: 20). Central government in the UK in the early years of the ERDF made little secret of the fact that ERDF expenditure at the regional level was not additional and that the major beneficiary of the process was Her Majesty's Treasury. Of course, the question of additionality has evolved over the past two decades and is considered in chapters 3 and 4, but it is argued that central government officials in the UK continue to treat ERDF primarily as a budgetary redistribution mechanism from the EC to the Treasury. Chapter 7 shows how central government uses the flexibility built into the incomplete contract to re-shape the contract to this end after its terms have been agreed.

The incentives of local agencies (in particular local authorities) are more transparent. Local authorities participate in the ERDF process and, like central government, publicly subscribe to the programme objectives of maximising job creation and promoting economic development. They participate in an apparently rational programming procedure under which an economic analysis of the needs and development problems in the region is conducted; the 'partnership' works together to determine the priorities for development on the basis of this analysis; objectives are formulated on the basis of these priorities; a general strategy is drawn up to accomplish these objectives. However, as Keating's observation (quoted above) on the fundamentally political nature of economic development policy suggests, the politics of real policy enter this idealised process at all stages. What sort of regional development 'strategy' should be adopted? In practice the question is not approached on the basis of a rational analysis of the development needs of the region, but on the basis of the interests of the local agencies. It will be shown in chapter 5 that, as a result, the 'strategy' drawn up for a region usually resembles a bolt-together of local actors' pre-existing spending programmes, within constraints determined by central government concerns over non-additionality, rather than a response to the development needs of a region suffering high unemployment.

It should be stressed at this point that it is not an aim of the research to castigate central or local actors for their 'failure' to act by the publicly stated objectives of the ERDF development programme. Rather, it is acknowledged that there are structural factors shaping and constraining the actions of the participants. In the case of the local authorities in particular, it should be noted that the 1980s were a period of severe financial constraint, with successive attempts by central government to restrict local expenditure in the name of national macroeconomic spending targets. Against the background of such expenditure cuts, the increasing involvement of the European Commission in economic development at the local level over the course of the 1980s, and moreover the expanded budget at the Commission's disposal, appeared to offer a new source of support for resource-starved local authorities. Despite the problems of continuing non-additionality, the 'Whitehall by-pass' came to signify the perceived ability of local authorities to turn to 'Brussels' for assistance when 'London' said 'No'. The efforts of local authorities to maximise their own share of the ERDF resources available in an eligible region is not criticised. It should be noted, however, that such 'competitive' action may often contradict the 'co-operative', superficially rational strategy drawn up for the region under the partnership procedure. The research therefore seeks to examine the extent to which DG XVI is able to shape the implementation process, maintaining the objectives of economic development at the centre of the process in the face of fierce competition for funds, and hence the opportunism of local actors.

Of course, the European Commission itself may also be subject to organisational objectives in contradiction to those of the programme. For example, it is undoubtedly the case that DG XVI (like most organisations) wants to spend its full budget every year. It is therefore conceivable that, if resources have not been fully committed towards the end of a programme, DG XVI may be prepared to see large projects pass through the selection procedure simply to spend the allocated expenditure. Another criticism, more widely voiced, of the European Commission's attitude towards the ERDF is that it simply allows DG XVI to engage in symbolic action, to at least appear to be 'doing something at the local level'. Some support for the argument that the ERDF is simply a 'cosmetic policy' can be found in the European Commission fascination with publicity - signboards, press releases etc. - for assisted projects (Wise & Croxford 1988: 171). It is acknowledged that this may have been true to some extent of DG XVI action in the early years of the ERDF, however, it is a central working hypothesis of this research that since the late 1980s and the reform of the Structural Funds, economic development objectives have been paramount.

It should also be recognised that the European Commission is not a monolithic structure with consistent objectives pursued across all policy areas throughout the various Directorates-General. The traditional tension between DG XVI and the Directorate-General for Competition Policy (DG IV) is frequently one of the most obvious cases of disagreement (Ballantyne & Bachtler 1990). At the collegiate level of the 17 Commissioners it is also conceivable that the ERDF does not elicit agreement over fundamental objectives. At the level of intergovernmental negotiation, it can be argued that the Structural Funds as a whole constitute an elaborate 'side-payments' mechanism (Marks 1992) whereby wealthier member states compensate the poorer member states worried by the potential consequences of further integration measures. There is no reason to assume that such a minimalist view of the role of the ERDF is not shared by individual Commissioners. The Structural Funds would therefore be viewed as 'the price to be paid' for further integration.[25] This, however, does not negate the fact that at the operational level there are Directorates in DG XVI which seek to

[25] Antonio Giolitti, the Commissioner for Regional Policies in the late 1970s, famously acknowledged that the ERDF was not a central Community policy. Rather, it was simply 'an accompanying measure', tacked on to address the detrimental effects of the main Community policies (quoted in Mawson, Martins & Gibney 1985: 20).

treat the ERDF as a real regional policy instrument in pursuit of regional economic development objectives. The research focuses on the ability of such Directorates to pursue their objectives amidst the wider lack of unity over policy goals.

As March and Olsen suggest, even in complex, unstable, little-understood environments where they are placed in 'a world over which they often have only modest control', organisational participants will 'try to understand what is going on, to activate themselves and their resources in order to solve their problems and move the world in desired directions' (1976: 21). This exploration of the assumption of opportunism made herein has suggested that it is rare for 'desired directions' to coincide perfectly in a policy field involving a multiplicity of actors. Although none of the participants in the ERDF implementation process would conceivably object to regional economic development were this actually to be achieved amidst the tangling together of assorted objectives, the opportunism of real actors (defined as self-interest seeking with guile) means that the programmes prepared for any given region cannot constitute a complete contract, specifying exhaustively in advance the action to be taken by each participant under every possible contingency. The incomplete nature of the agreement is compounded by the bounded rationality of real actors.

1.4.2 *The Assumption of Bounded Rationality*

The second key assumption of the model of policy implementation as incomplete contracting is that political actors are boundedly rational, and they know it. The concept of bounded rationality was most famously elaborated by Herbert Simon in the 1950s. His definition pointed out that 'the capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behavior in the real world (quoted in Williamson 1975: 9). Hence, bounded rationality refers to human behaviour that is 'intendedly rational, but only limitedly so' (ibid.: 21). Williamson himself identifies neurophysiological limits and language limits to rationality. The former limits 'take the form of rate and storage limits on the powers of individuals to receive, store, retrieve, and process information without error', while the latter refer to 'the inability of individuals to articulate their knowledge or feelings by the use of words, numbers, or graphics in ways which permit them to be understood by others' (1975: 21-22). These limits obviously constrain the ability of real actors to plan ahead.

Milgrom and Roberts have provided a concise summary of the phenomenon of bounded rationality as follows:

> Real people are not omniscient nor perfectly far-sighted. They cannot solve arbitrarily complex problems exactly, costlessly, and instantaneously, and they cannot communicate with one another freely and perfectly. Instead, they are *boundedly rational*, and they know it. They recognise that they cannot possibly foresee all the things that might matter for them, they understand that communication is costly and imperfect and that understandings are often flawed, and they know that they are not likely to find the mathematically best solution to difficult problems. They then act in an *intentionally rational* manner, trying to do the best they can given the limitations under which they work. And, they learn [emphasis in original] (1992: 129-130).

It is assumed in this thesis that political actors are rational to the extent that they pursue courses of action designed to achieve their objectives, but they are not *hyper-rational*. In other words, it is not assumed that such actors are 'capable of instantaneous, unlimited, perfect, and costless calculation', or that they can 'effectively and effortlessly forecast all possible eventualities and the full implications of any information or decision, and that they completely optimize in all situations' (Milgrom & Roberts 1992: 43). The rational maximiser of classical economic theory is of little relevance herein.

Just as the assumption of opportunism outlined above found some support in the bottom-up approach to policy implementation, so too can the relevance of the assumption of bounded rationality be traced in the policy implementation literature. The limits to rational behaviour, when combined with the effects of a complex or uncertain environment, have profound implications for public policy-making. The Majone and Wildavsky quotation presented at the start of chapter 2 below hints at the importance of bounded rationality when it points out that policies do not 'spring fully armed from the forehead of an omniscient policymaker', but that discretion is both inevitable and necessary (1979: 189). In a similar fashion, the bottom-up approach taught researchers in the field of policy implementation that perfectly pre-programmed implementation is not feasible. Rather, actors at the point of policy delivery must develop standard operating procedures and rules of thumb in response to the discretion they inevitably enjoy. In this way, the recursive relation between policy and action discussed above implies that policy is made and re-made *throughout* the process of policy-making and implementation. Complete contracting is not feasible.

The two assumptions of bounded rationality and opportunism underpin the analysis presented in this thesis. Together they explain why any contract, that is, any agreement among interdependent actors to recognise their mutual interests and modify their behaviour accordingly, can only ever be incomplete. As Williamson himself concludes, 'rather than attempt to anticipate all possible contingencies from the outset, the future is permitted to unfold' (1975: 9). This is the essence of policy implementation as incomplete contracting.

1.4.3 *Incomplete Contracting*

The basic contours of the model of policy implementation as incomplete contracting have been sketched in the pages above. The starting point of the model is an exchange-based conceptualisation of power. The primary methodological innovation proposed by the model is a shift in the unit of analysis to the ongoing exchange between the various actors involved in the process of policy implementation. The importance of exchange in the ex-ante co-ordination of actors to form a coherent plan, as well as in the ex-post motivation of actors to abide by that plan is stressed. The agreement of interdependent actors to recognise their mutual interests and to co-ordinate their actions is conceptualised as a contract. The model of policy implementation as contracting provides a valuable conceptual tool by which to emphasise the importance of both co-ordination and motivation. However, given the opportunism and bounded rationality of real actors, contractual agreements can only ever be incomplete.

Chapter 2 sets out the model in greater detail and emphasises precisely what it is about the exchange between actors that is relevant to implementation analysis. Without pre-empting chapter 2, it is suggested that three key elements of the exchange are central to the analytical model of policy implementation as incomplete contracting. The *complexity and uncertainty* of determining what performance will be required, the *asset specificity* of the resources brought to the exchange by each participant, and the *frequency* of the exchanges and the *duration* of exchange relationship determine the nature of the contractual agreement reached by participants in an exchange relationship. Furthermore, the model teaches us to look for a number of phenomena (such as the evolution of *trust*, or the setting up of *third parties* or *special purpose institutions*) that are relevant to the analysis of policy implementation. These are the basic elements of the model elaborated in chapter 2 and tested in the case study of Western Scotland.

It should be acknowledged at the outset that the model developed in chapter 2 is one that is of most relevance when there is the capacity for participants in the policy process to act in a 'problem solving' mode. In other words, participants must recognise their common interest and not solely claim the benefits of co-ordinated action for themselves. Scharpf rightly notes that 'distributive issues are legitimate even in a *Gemeinschaft*', but if disagreements relating to the best way of achieving common goals are *always* reduced to disagreement over the individual distribution of costs and benefits, then 'mutual distrust' is more likely than an 'orientation towards common goals, values and norms' (1988: 264-265). In short, the model developed herein is of less relevance when redistribution between the actors participating in the policy is the sole reason for which they participate (Majone 1993c). Although it is not a key assumption of the thesis (in the way that opportunism and bounded rationality are set out above) that this is the case, it must be acknowledged that the inability of actors to see beyond their own distributional interests would limit the insights of the model.

It should be noted at this point that the model of incomplete contracting, although not yet applied to the *vertical* process of policy implementation within a Community member state, has been used to analyse the *horizontal* process of negotiation between member states in the context of the Single Market programme (Garrett & Weingast 1991; Garrett 1992). Again, this use of the model is considered in chapter 2. Essentially, Garrett suggests that the co-ordinated opening of domestic markets can be interpreted as a collective action problem. All member states favour this option, but there are strong incentives to defect. Since the actors cannot specify in advance the action required under all contingencies (and monitoring performance is difficult), they delegate authority to a third party (1992: 535). Moravcsik takes a sideswipe in passing at this use of the model, pointing out that it is not a useful general theory of EC policy-making as it fails to explain different forms of delegation or why delegation sometimes does not occur (1994: 509). From the perspective of this thesis, Garett and Weingast's work is only of limited use as it has a strong judicial element. They use the model primarily to justify the existence of the European Court of Justice, whereas the more detailed use of the model developed below emphasises the fact that legal remedies are not desirable given the importance of developing trust. Nevertheless, it is important to note that the model has already made a brief appearance on the stage of European policy-making theory.

Empirical support for the concept of 'incomplete contracts' can also be found relatively early in the history of the ERDF. In 1981 the European Commission sought to reform the pale shadow of a Community regional policy that it had inherited as a result of the original 1975 Regulation. Heavily influenced by the contemporaneous development of the French regional planning system of the *Contrats de Plan*, the European Commission proposed the introduction of formal 'programme contracts' with each member state detailing the development programme to which it would be committed by its agreement with the Commission. The fate of this proposal is considered in detail in chapter 3, but it is worth indicating briefly at this point that from the point of view of the Commission's ability to gain approval of the proposal, the timing of the Commission bid was wrong. It caused great consternation among member state governments where the ERDF was still seen primarily as a budgetary redistribution mechanism. The UK House of Lords Select Committee on the European Communities took the view that 'the legalistic flavour' of the word 'contract' alarmed member state governments: 'the Commission is in fact seeking a formal agreement with Member States about the financing of a number of programmes of regional development of at least three years' duration whose shape however could be altered at a later date with the agreement of the Fund Management Committee. *Clearly a balance has to be struck between a programme that is so loose in construction that it can finance almost any project and a programme that is so specific that the projects it supports cannot be altered or rescheduled in the light of changing economic circumstances* [emphasis added] (1982: xiii)'. After a two-year stalemate a watered-down reform of the ERDF was agreed with no mention of 'contracts' and little advance made by the European Commission on the principle of programming.

The underlying thrust of current analysis of the Structural Funds is generally that, although the Commission lost the battle in the early 1980s, it won the war in 1988 with the reform of the Regulations. Although the Commission's revised draft of 1983 dropped all reference to contracts, the programming procedure introduced in the mid-1980s and strengthened in 1988 constitutes a *de facto* system of contracting between the European Commission, the relevant member state government and the sub-national actors responsible for bringing forward projects within the strategic framework. However, as suggested in this section, the key to understanding the ERDF implementation process is that *no regional development contract can completely foresee all eventualities*. The bounded rationality of the parties to the contract means that it is impossible to foresee all contingencies over the course of a five-year development programme. Interest rate changes in the wider economy, unexpected factory closures or even 'windfall' opportunities are only three potential eventualities that would have direct consequences for the nature of the regional development strategy drawn up for a given region. Such uncertainty necessarily renders the regional development contract incomplete. The model of policy implementation as incomplete contracting therefore throws light not only upon the importance of co-ordinating actors to achieve a coherent plan, but also upon the importance of motivating actors to make any necessary adaptations without subverting the original objectives of the plan. Before elaborating this model in chapter 2, some attention should be devoted to the way in which the model is employed, that is, to the research design and method.

1.5 Research Design and Method

As suggested above, the central aim of this thesis is to develop a model of policy implementation that illuminates the complexity of the ERDF partnership process and facilitates analysis of the role of the European Commission in implementation in this policy field. The basic contours and the two central assumptions of the model of policy implementation as incomplete contracting were set out in the previous section. Chapter 2 details the model at length before the remainder of the thesis tests the applicability and utility of the model. To borrow a term from statistics, the empirical chapters of the thesis test the *goodness of fit* of the model. Chapters 3 and 4 examine the evolution of the ERDF at the European level to assess the extent to which the Regulations provide the European Commission with the tools to engage in exchange relationships with member state and sub-national actors in this policy field. Chapters 5, 6 and 7 then turn to the regional level to present a case study of ERDF implementation in Western Scotland. The aim of the case study is to assess the extent to which the model provides an accurate description of the process of policy implementation. More importantly, what aspects of the process does the model highlight, and what analytical insights does it provide? Some attention should be devoted at this stage to the selection of Western Scotland as the case study region.

Against the wider background of the continuing movement for self-government, the task of studying Scottish political or sociological phenomena is generally seen as uncovering what is distinctive in that part of the United Kingdom. Consequently, to focus on policy-making and implementation in Scotland usually implies engaging with the debate on whether policy-making there is best viewed as a distinct 'political system' (Kellas 1983), as a 'sub-system' (Rose 1982) or more generally in terms of a series of 'complex networks, linking Scottish actors to one another and to non-Scottish networks' (Keating & Midwinter 1983: 3).[26] However, it should be emphasised that the debate on the distinctiveness of policy-making in Scotland is not of concern to this research. In selecting Western Scotland as the Objective 2 region to be analysed in this research, the intention is consequently *not* to demonstrate any level of distinctiveness *vis-à-vis* other Objective 2 regions in the UK that may derive from the trinity of Scottish national identity, autonomous institutions and distinctive interests. Rather, Western Scotland was selected to assess the lessons that can be drawn more generally about the implementation of European Regional

[26] Moore and Booth have conducted a useful review of this debate (1989; 1990). Although they accept that the existence of a sense of national identity, a set of relatively autonomous institutions, and distinctive patterns of interest representation and intermediation allow a differentiation of Scotland from the rest of the UK in its patterns of government and decision-making, the authors rightly urge that the autonomy for separate policy development is relative and changes over time and with issues.

Development Fund programmes, and as a test for the model of the implementation process as incomplete contracting.

Four main empirical reasons justify the selection of Western Scotland for the case study. Firstly, the severity of the problems caused by 'de-industrialisation' in Western Scotland makes the region a highly typical Objective 2 region in European terms. Secondly, the length of time for which there have been ERDF programmes in Western Scotland (that is, since 1985) facilitates longitudinal analysis of the role of the European Commission in the implementation of such programmes in the UK, and allows an assessment of the extent to which a sense of trust has developed among the partnership there. The Glasgow National Programme of Community Interest approved in 1985 was one of the first in the Community. Moreover, when it was approved in 1988, the Strathclyde Integrated Development Operation was the largest financial package of its kind in the EC. Thirdly, the wide variety of institutions (over 140) currently involved in the partnership process there provides a useful test-case of implementation amidst institutional complexity and uncertainty over commitment to stated policy objectives. Fourthly, in 1989 the Strathclyde IDO Programme Executive, unique at that time in the UK, was established. This body (examined in detail in chapter 6) is nominally independent of the participating actors, does not sponsor projects itself, and claims that its sole responsibility is to the implementation of the development programme. The Executive, which has expanded over the years since its creation, provides an illustration of an attempt to establish an 'independent' third party to oversee the contract, and is hence of central concern to this research focus. These four reasons have guided the selection of Western Scotland as the case study region presented herein. The range of the empirical data sources utilised for the case study should now be acknowledged.

1.5.1 *Research Data Sources*

The research method employed in this study is eclectic. Most obviously, the secondary sources comprise a vast literature both on the ERDF and on policy implementation (although the overlap between these two bodies of literature remains marginal). The bibliography presented at the end of this thesis testifies to the fact that these respective bodies of literature were examined exhaustively to provide the framework for the analysis presented herein. The literature of economic neo-institutionalism and the contracting approach was plundered to the extent that it provides the tools of analysis appropriate to the model of incomplete contracting.

Figure 1.1: List of Sources Utilised

i. Secondary literature;
ii. Official reports, policy documents, press cuttings;
iii. Six reports of the House of Lords Select Committee on the European Communities dealing with the ERDF (spanning 1975 to 1992);
iv. Commissioned evaluations of Structural Fund programmes:
v. Over 50 actors interviewed, many several times;
vi. 'Participant observation' in both DG XVI and UK central government.

The empirical sources utilised were both wide and varied. As Figure 1.1 shows, the primary sources consulted include various forms of documentation such as official reports, press cuttings, and policy documents. The House of Lords Select Committee on the European Communities reports on the ERDF (House of Lords 1977; 1981; 1982; 1984; 1988; 1992) have been particularly useful, especially for the historical context provided in chapters 3 and 4. Moreover, a wide variety of policy evaluations conducted for various actors in the ERDF process have provided a rich source of data. Such evaluations, listed in the bibliography, of course need to be treated with caution, for the obvious reason that consultants often report what the contractor wishes to hear. At a minimum, however, they provide useful data and occasionally challenging ideas. In addition to these sources, a series of semi-structured personal interviews with key protagonists elicited high-quality, detailed information from individual actors (which often highlighted the errors of the evaluations noted above). Over fifty interviewees were interviewed, many more than once, over a period of more than four years (a list of interviewees is provided in Appendix 1). These included officials of the European Commission, Members of the European Parliament, central government officials in the UK and officials from a variety of regional and local bodies in Scotland. These interviews provided valuable insights to supplement the other sources listed above.

An extra dimension is added to the eclectic nature of the research method by virtue of the author's own participation in the process of implementation of ERDF programmes. During the course of conducting this research, the author spent an extended period in Brussels undertaking a five-month traineeship in the Directorate of DG XVI of the European Commission with responsibility for ERDF programmes in the declining industrial regions of the EC. More significantly, following this *stage*, the author undertook an eleven-month contract of employment in the Scottish Office Industry Department in Edinburgh, participating directly in the numerous committee meetings surrounding the implementation of Structural Fund programmes in Scotland.

Consequently, this research has benefited from the opportunity to view the ERDF implementation process 'from the inside' of both the European Commission and UK central government.

Blowers, in his fascinating study of the distribution of power between politicians and professional planners in Bedfordshire, following a period when he was Chairman of the Environmental Services Committee of Bedfordshire County Council, writes of the potential significance of direct access to data sources for the political scientist:

> The inaccessibility of the political process is protected by the carapace of secrecy which is one of its inherent features. Much of my source material is not to be found in the written word, but in the essence of the interactions at committees, or between decision-makers. I attempted to record viewpoints and comments expressed verbally by keeping a diary of the events of the period I describe and this proved to be a valuable source when I came to the difficult task of trying to connect up the various stages in policy-making. I believe my method based upon the valuable and unique insight it gave to the process does reveal much of what lies hidden, and goes some way towards explaining the how and why of certain decisions (1980: x).

While not claiming to have enjoyed an insight comparable to that gained by Blowers during his years serving on Bedfordshire County Council, it is certainly the case that direct access to the files and internal memoranda of both the European Commission (DG XVI) and UK central government, as well as the opportunity to participate directly as an employee of the latter in the implementation of ERDF programmes in Scotland, has informed much of the analysis presented in the following chapters.[27] Moreover, extended periods in these organisations frequently made it possible to follow-up interviews in order to seek further clarification of any given point. At a minimum, such exchanges were facilitated by the fact that the interviewer and the interviewee shared a common conceptual language. More importantly, it was hopefully the case (at least during the period spent at the Scottish Office) that the interviewer was regarded primarily as an insider, a fellow employee, and only secondarily, if at all, as a researcher.

Of course, 'participant observation' brings its own problems for the researcher.[28] Most obviously, much of the data amassed from government files and

[27] Unlike Ross (1995) who provides a narrative account of the 'process of European integration' based on participant observation in the Delors' Cabinet, direct insight in this research has supplemented rather than guided the data collection process.
[28] Drawing lessons from the field of anthropology, Isaak suggests that 'the objective of participant observation is not only to observe behavior first-hand but to get a feel for the culture by actually being

memoranda is of a sensitive nature and cannot be cited explicitly in the final research report. Due care has been taken not to reproduce information of such a sensitive nature. Another problem of information gathered from such sources, particularly information gleaned from participation in committee meetings, is that it is often difficult to gather and aggregate systematically. Finally, and more subtly, as Blowers remarked in the conclusion of his study, 'a great deal depends on the individual researcher's ability to make intuitive leaps from his own detailed knowledge to the wider issues which his study provokes ... *his knowledge of the whole is heavily conditioned by specific experience* (emphasis added)' (1980: 181). This point is openly acknowledged herein, but the research design (and range of sources) is constructed in such a way as to minimise the danger of relying too heavily on specific experience. On balance, however, the benefits of introducing the 'researcher into the research situation' (Isaak 1985: 57) outweigh the associated methodological problems in this case given the difficulties faced by early attempts to analyse the implementation of the ERDF in the UK.[29]

Finally, it should be emphasised that the broader methodology informing this research design does not reflect a desire to record the actions of specific individuals. Specifically, the importance assigned to the actions of institutional actors in this framework does not signal an attempt to castigate individuals involved in the implementation of ERDF programmes. By contrast, it should be emphasised that the research shares the aim of Blowers not simply to record from the inside the motivations of particular individuals, but to analyse structural and institutional determinants in the process of policy-making and implementation (1980). As Dowding explains more generally, 'when explaining a particular political process and its resultant outcomes by means of individual behaviour one does not need to do so without taking into account the institutions which help to shape that behaviour', since methodological individualism 'cannot ignore the structures and institutions which suggest certain courses of action rather than others' (1994b: 109).[30] The focus of the model of policy implementation as incomplete contracting elaborated in the following chapter is upon the motivations of actors (and hence their actions), but within a structure imposed partly as a result of the attempt to co-ordinate their actions through 'partnership'.

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part of it' (1985: 57). For a discussion of 'observation studies', and the distinction between 'complete participant observation' and 'active participant observation', see Harrop (1985: 163).

[29] Coates and Wallace, in their 1984 study of the implementation of EC funds in the UK, suggest that organisational complexity and the opaque nature of the process inhibit analysis (1984: 177-178).

[30] In discussing the methodological divide between those explanations in political science influenced by sociology, and those influenced by economics, Shepsle (1989: 133) cites the earlier observation by James Duesenberry that 'economics is all about how people make choices; sociology is all about how they don't have any choices to make'. It is proposed in this thesis that the choices made by individual actors are suggested, and constrained, by the organisations of which they form part.

1.6 Research Structure

This chapter has presented the research framework for the analysis of the implementation of European Regional Development Fund programmes in Western Scotland. The principle of 'partnership' in the implementation of such programmes stands at the centre of analysis. Krislov, Ehlermann and Weiler (quoted at the start of this chapter) observed that the Community's 'arms and eyes are not under its control' (1986: 22). This statement needs to be re-assessed in the field of EC regional policy, where the Commission's ability to observe what is taking place in the regions of the Community has increased significantly since 1988. Even with this increased 'vision' for the European Commission, however, central, regional, and local actors in the member state retain significant discretion in the implementation of ERDF programmes; and, despite the significance of the 'hazy' relationship between policy-making and enforcement identified by Krislov et al., the implementation of EC policies remains neglected in the literature of political science and public policy analysis. This research constitutes an attempt to redress the balance by analysing the grey zone between policy intent and policy output in the field of European Community regional policy.

The booming literature in regional studies has been identified above. It has been suggested that there is a gap in this literature in that there is very little analysis of the ERDF from the European Commission perspective. The general policy context has been sketched, both in conceptual terms and in terms of the policy under focus. The introductory chapter then set out the key assumptions and introduced the model of policy implementation as incomplete contracting, summarising the research method by which this model will be tested. **Chapter 2** provides a comprehensive review of the policy implementation literature, before setting out the model fully. The remaining chapters then focus on the exchange between interdependent actors in an implementation setting as the key level of analysis.

Chapter 3 provides an account of the background, creation and first decade of the ERDF and its operation. This account emphasises that the 'real' objectives of the ERDF have always been highly contested. The chapter suggests that it has never been fully accepted by all participating actors that the Fund was first and foremost a tool for regional economic development. Rather, the ERDF was conceived as a mechanism for budgetary redistribution between the member states and this has shaped the operation of the Fund from the outset, not least through the practice whereby many central governments ignore the principle of additionality. Nevertheless, the European Commission has consistently sought to promote the Fund's stated objectives of regional economic development, and the chapter examines the extent to which it succeeded in the early years of the ERDF by focusing on the key principles underpinning EC regional policy. This evolution is considered in the context of early theories of policy-making in the EC, adapted largely from International Relations and studies of the process of European integration. The chapter also considers the handful of studies that have examined the ERDF from an implementation perspective. Both policy-making and implementation accounts emphasise the dominant role of central governments in the EC regional policy process. In short, chapter 3 considers the extent of the European Commission's dependence (in formal and informal terms) on central government in these years, and examines DG XVI's attempts to widen the process of territorial political exchange to involve sub-national actors.

This process of territorial political exchange was radically altered through the Structural Fund reforms of 1988 analysed in **Chapter 4**. The role of sub-national actors was recognised under the principle of partnership, the general rationale for which was the promotion of a 'rational' development strategy on the basis of all available information according to the European Commission. As the Director-General of DG XVI noted, 'the aim of partnership is for all those involved in development to define together the measures which they are going to undertake jointly. This guarantees full understanding of all the objectives sought, the methods to be used and the most rational utilisation of the funds available' (Landaburu 1990: 99). Chapter 4 examines the extent to which the 1988 Regulations provided the European Commission with the tools necessary to fashion the regional economic development contracts with sub-national actors behind the outer-shell of the member state.

While chapters 3 and 4 focus primarily upon European-level changes in EC regional policy, chapters 5, 6 and 7 then adopt the model of policy implementation to look beyond the outer-shell to the regional level. These chapters constitute the case study of the region of Western Scotland. The time-frame for these chapters spans 1985 to 1994, with particular emphasis on the years 1988 to 1993. The years 1985 to 1988 are considered briefly as this period covers the first attempts to introduce the programming of ERDF expenditure in Western Scotland, and hence the earliest contracts. The emphasis on the years 1988 to 1993 reflects the fact that these years cover the period of the 'Strathclyde Integrated Development Operation', the key programme analysed herein.

Chapter 5 considers the preparation of the regional development contract. This chapter emphasises that the shift over time in the use of ERDF resources away from projects supporting capital-financed hardware (supported by central government), towards projects supporting revenue-financed software such as business support schemes (supported by DG XVI) indicates the increased capacity of the

European Commission to shape the overall priorities of the development programme. However, regional development programmes can never be completely elaborated to cover all the eventualities that might arise over the course of the five-year programme. The possibility of unforeseen economic difficulties or changing development opportunities mean that there must be some room for manoeuvre: discretion is inevitable in that programmes must be allowed to unfold to a certain extent. The task of motivating the development partners to abide by the terms of the programme under changing circumstances is therefore vital.

Chapter 6 analyses the institutional structures that DG XVI has sought to shape at the regional level not just to prepare the development programme, but to monitor its implementation so as to maximise the likelihood that the spirit of the programme will be respected. However, **Chapter 7** illustrates the extent to which central government in the UK has been able to use the inevitable flexibility of the contract to re-direct expenditure *after the approval of the programme* away from software measures back to hardware measures. As suggested above, European Community regional development policy emerges across the numerous steps in the entire process from the agreement of the Structural Fund Regulations to the financing and execution of individual projects at the regional level. The incomplete nature of the original development contract means that the final shape of the ERDF-financed programme of assistance is malleable at a multitude of points. The wider conclusions of this thesis are detailed in **Chapter 8**, which emphasises the contribution made to implementation research by the model of policy implementation as incomplete contracting and sketches some ideas as to how the emerging sense of trust and shared values at the regional level can be strengthened. At this point, the model should now be elaborated in greater detail. It is to the elusiveness of the 'complete contract' that the thesis now turns.

Chapter 2. The Policy Implementation Perspective: The Elusiveness of the Complete Contract

> Unless one is willing to assume that policies spring fully armed from the forehead of an omniscient policymaker, discretion is both inevitable and necessary. Unless administration is programmed - a robot comes to mind - discretion can be controlled only by indirect means. Again, we must rely on learning and invention rather than on instruction and command ... We require the impossible when we expect our bureaucrats to be at the same time literal executors and successful implementers of policy mandates. *Something has to be left to chance* [emphasis added] (Majone & Wildavsky 1979: 189).

2.1 Introduction

This chapter sets out the theoretical background of the research and elaborates the model of policy implementation as 'incomplete contracting' that is utilised in subsequent chapters. **Section 2.2** highlights the key phenomena that must be conceptualised in any analytical model of the European Commission's control over policy implementation. These include the relatively small size of the European Commission as an organisation and its consequent dependence on external actors for policy-relevant information, as well as the obvious fact that the European Commission does not directly implement its own policies. These factors generally contribute to a high level of interdependence between the actors involved in the formulation and implementation of European policy. Parri's model of 'territorial political exchange' (1989; 1990) is therefore sketched in Section 2.2 to illustrate the potential complexity of policy-making involving a variety of actors at different territorial levels. Reference is made at this point to the specific example of the ERDF, to illustrate the dependence of the European Commission on external actors in policy formulation and implementation. Inter-organisational dependencies, a potentially fluid policy environment and the sheer difficulty of designing policy responses to complex problems support Majone and Wildavsky's claim (quoted above) that policies cannot simply 'spring fully armed from the head of an omniscient policymaker'. It is indeed true that something has to be left to chance. However, this is not to deny that each actor may try to steer the complex policy environment in its own favour. The remainder of this chapter sets out a model for analysing the extent to which the European Commission is able to shape the inherently complex process of the implementation of ERDF programmes.

Section 2.3 presents the policy implementation perspective through an extensive review of the literature dealing with the subject of implementation. The 'top-down' and 'bottom-up' approaches to implementation research are contrasted before **Section 2.4** considers later attempts to elaborate models moving beyond the traditional top-down versus bottom-up dichotomy. However, as is argued below, such models generally share the defect common to both top-down and bottom-up approaches to policy implementation: traditional approaches suggest that bargaining (the exchange of resources) is concentrated in *either* the ex-ante preparation phase of a policy decision, *or* in the ex-post execution phase. A conceptual framework must be developed to emphasise the fact that bargaining is an *ongoing* feature of the relationship between actors involved in policy-making and cannot be concentrated in either phase. The over-emphasis of top-down (pre-programmed) approaches on the importance of the co-ordination of actors in line with central objectives is mirrored by the over-emphasis of bottom-up (adaptive) approaches on the motivations of lower-level actors. It is suggested herein that *both co-ordination and motivation (of actors to abide by the spirit of the policy decision) are indispensable*, given the uncertainty and complexity surrounding the implementation of public policies. The process of bargaining is neither concentrated in the ex-ante co-ordination of actors to reach agreement, nor in the ex-post enforcement of the terms of that agreement. A conceptual framework emphasising the importance of both co-ordination and motivation would provide an elegant means by which to integrate the primary concerns of both sides of the traditional dichotomy in implementation studies.

The mutual importance of the tasks of co-ordination and motivation is widely recognised in the literature on 'contracting' as developed in recent theories of economic neo-institutionalism. The 'transaction costs approach' in particular highlights the link between these tasks under a variety of forms of social and economic interaction. **Section 2.5** therefore addresses this literature in search of assistance in strengthening extant models of policy implementation. The agreement of actors to co-ordinate their actions and modify their behaviour in ways that are mutually beneficial is conceptualised as a contract. Implementation is thus conceptualised as a process of contracting. However, given the assumptions of bounded rationality and opportunism highlighted in the previous chapter, the contract can only ever involve an agreement that is incomplete in key respects. Section 2.5 sets out the key dimensions of the exchange relationship which determine the nature of the contractual arrangement, that is the nature of the implementation structure. The elaboration of the model concludes by pointing out the key aspects of the contractual arrangement (such as the development of trust or the emergence of third parties) that it teaches us to look for. **Section 2.6** provides a summary of the key arguments made in this chapter and a concise statement of the model of policy implementation as incomplete contracting. Before turning directly to the question of policy implementation *per se*, however, Section 2.2 sketches some of the general sources of uncertainty and complexity in contemporary policy-making.

2.2 European Commission Involvement in Processes of 'Territorial Political Exchange'

The increasing complexity of government action in the post-war state has been a central theme in recent social science literature. A general consensus seems to have emerged that the capacity of the traditional, hierarchically organised state to act unilaterally in the face of the problems of advanced industrial economy and society is on the wane. The growth of public responsibilities in welfare and economic management has been accompanied by concerns of demand overload and general ungovernability (Rose 1980; Kaufman, Majone & Ostrom 1986; Marin 1990b; Hanf & O'Toole 1992; Scharpf 1993). Simultaneously, the state has experienced a significant internationalisation of key policy areas. Hence, examination of those 'structural features of the political-administrative system [which] might account for the inability of governments to guide socio-economic processes and developments more effectively' has long been identified as a key task of social science research (Hanf 1978: 1). In short, this general consensus is best summed up by O'Toole's assertion that the notion of an 'omniscient, omnicompetent and omnipotent state' is now severely outdated (1993: 52).

Social science research in this vein has focused primarily on functional interdependence and more specifically on the phenomenon of 'private interest government' (Streeck & Schmitter 1985). In an environment of rapid scientific and technical change where social and economic development is associated with 'increasing differentiation, specialisation and functional interdependence' (Scharpf 1993: 125), the capacity for unilateral action by the state comes under increasing strain. The reliance of modern government on private sector interests for information and expertise extends from policy formation through to policy implementation, and is also documented in 'newly emerging forms of transnational regimes' (Greenwood, Grote & Ronit 1992: 20). It has been argued in this context that 'governments should no longer command such an exclusive hold' on the attention of political scientists. Rather, attention should shift to 'governance', that is to 'the action of government plus its interaction with its nongovernmental partners in the process of governing - in their collective relationship with the economy and public policy' (Boyer 1990: 50-51; Kooiman 1993). The concepts of 'governance' and 'governance structures' are considered in greater depth in Section 2.5, but at this stage it is essential to note that the complexity and interdependence implied by these terms are not confined solely to the relationship between the state and functional segments of society. Complexity and interdependence also characterise relations between the state and other territorial units.

Parri has presented a model for analysing contemporary territorial politics that goes beyond the static and formal juridical analyses inherent in many of the early centralisation versus decentralisation debates (1989; 1990). He argues that 'contemporary governance is no longer a question of the mere deployment of state authority through decrees and enforcement', and that this lesson should be extended from the functional to the territorial realm of politics (1989: 197). Traditional studies of intergovernmental relations were, according to Parri, largely legalistic accounts of administrative processes that overlooked the fundamentally *political* aspects of the relationship between central and regional (or local) government institutions (1989: 198). By contrast, Parri's model of 'territorial political exchange (TPE)' uses an 'exchange-based concept of power', which he argues is more useful than concepts of 'hierarchical control' or 'subordination'.[1] Specifying the potential 'resource domains' of the respective actors, Parri draws attention to the expertise, field information and knowledge resources possessed by 'sub-national governments' in situations of territorial political exchange. Such exchange is therefore defined as the phenomenon whereby sub-national governments mobilise these resources to force central government to negotiate the content of decision-making and implementation:

> [A] TPE occurs when one of the two public actors, normally the one at the higher territorial level, allows the other to influence the content of the public decisional ... and implementation processes ... so that it can profit from part of the public policy outputs and outcomes, and when, in exchange for this, the latter gives its consensus to the former (1990: 217).

Of course, the exchange process need not be balanced and the central actor may have access to greater resource domains than local actors.[2] Nevertheless, a key advantage

[1] Appropriately for a study of implementation, Parri raises the question that if sub-national actors were indeed subordinate, why would 'goal displacement' and 'uncontrolled discretion' occur? (1989: 198).
[2] For example, the ability of local actors in the UK to frustrate central government should not be overestimated. As Sharpe correctly points out, 'where the centre sees the partisanship of the localities as a major obstacle to achieving its major policies and its coordination aims it may seek to alter the very foundations of the central local relationship or the even more drastic remedy of altering the structure of the decentral system itself so as to render it more malleable to the centre's aims' (1986: 165-166). During the years of the Thatcher governments, both these options were applied in the UK and, as is shown in chapter 5, it has been argued that the current process of local government reorganisation in Scotland is inspired principally by the political desire of the Conservative government to dismantle the large Labour-controlled regional councils. Although it is assumed that, under normal circumstances, central-local relations in the UK are characterised by elements of political exchange, such 'sledgehammer' options should be borne in mind when referring to 'bottom-up' accounts of policy implementation below.

of this 'interdependence' approach, as opposed to notions of independence or dependence, is that it draws attention to the informal political aspects of the relationship as well as the purely formal (cf. Rhodes 1980: 292). The 'TPE' model has therefore been introduced to provide a first illustration of the potential complexity of multi-organisational policy-making, and to highlight the exchange-based conceptualisation of power upon which the model of policy implementation as incomplete contracting is founded. The involvement of the European Commission in processes of territorial political exchange is an increasingly obvious phenomenon in the EC.

Another dimension is added to the complexity of territorial political exchange when the European Commission is introduced as an actor at a 'higher territorial level', to borrow Parri's term. Broad accounts of the relationship between sub-national governments and the European Union are multiplying rapidly in number, but are often largely descriptive in nature (Hull & Rhodes 1977; Bray & Morgan 1985; Cini 1990; Preston 1992; Rhodes, 1992; Goldsmith 1993). Other accounts are designed as guides for local authorities (Audit Commission 1991a). More specifically, despite Mawson and Gibney's early observations (1985: 149-157), the literature on lobbying has been slow to address the phenomenon of sub-national actors forming pressure groups at the European level (McAleavey & Mitchell 1994: 238). Moreover, in most cases, the normative echoes of 'Europe of the Regions' fantasies can usually be heard in the background. As a whole, this literature is perhaps most notable for the prodigious production of new labels and metaphors to describe the increasing intensity of contact between supranational and sub-national actors.[3] The analytical contribution of much of this literature to an understanding of patterns of three- or four-level territorial political exchange has been limited.

The primary lesson to be drawn from this burgeoning literature on sub-national government involvement in EC affairs was discovered relatively early: 'information lies at the heart of the relationship between the Community and subnational government' (Parsons 1979: 40; Rhodes & Hull 1977). The importance of information as a political resource should not be under-estimated. As Bish has pointed out, since 'no one is omniscient, information is itself a valuable good that is costly to obtain in a complex and changing environment' (1978: 20). The value of information in the EC is particularly high, given that policy-making in the Community relies on the exchange of expertise to facilitate the search for consensus between representatives of institutionalised or organised interests (Siedentopf & Ziller 1988: 78-79). The European Commission, as an organisation charged with the task of

[3] For example, one account of 'tri-level interaction' from the early years of the ERDF referred to transactions between the sub-state system and the supra-state system in terms of 'leapfrogging' by the former over the heads of central government to the latter (Rudolph 1977: 349).

making policy proposals that achieve consensus among member states, is therefore highly dependent upon external actors for the supply of necessary policy information.

The European Commission is a very small organisation relative to the wide array of functions it undertakes. As such, its 4,000 or so 'A' grade officials[4] involved in the formulation of policies, the drafting of legislation and the supervision of the execution of such legislation are highly dependent on outside expertise.[5] The Directorate-General for Regional Policies (DG XVI) is no exception to this general rule. Since the establishment of the Regional Development Fund in 1975, DG XVI has consistently sought to strengthen communication channels with regional and local actors in an effort to inform the preparation of regional development programmes for the Community's economically disadvantaged regions. Indeed, when compared with officials in other DGs responsible for Community-wide sectoral policies, it could be argued that the need of DG XVI officials for expertise, field information and knowledge resources from the far-flung corners of the Community's territory is significantly greater. Between 1989 and 1993, DG XVI's grade 'A' officials (who number well under 100, and not all of whom are engaged in programme implementation) were partly responsible for the deployment of more than ECU 60 billion (in 1989 prices) through over 140 development programmes covering 43% of the Community's population. From the European Commission's perspective, the involvement of regional and local actors, providing information on the economic problems and opportunities in the eligible regions, was a prerequisite for the preparation of co-ordinated regional development plans. In the words of Pinder, 'the Fund is a responsive instrument dependent on regional demand being channelled upwards to it' (1989: 18).

In the early years of the European Regional Development Fund, as shown in chapter 3, Directorate-General XVI had to rely on occasional, informal visits to Brussels by British local authority officials and actors involved in regional development for direct information on disadvantaged regions there. Although local authorities in the UK were often pro-active in taking the initiative and visiting DG XVI in Brussels, the contact was strictly informal. Preston and Hogg captured the mood of many local government officials at this time who maintained they were generally 'kept in the dark' regarding European initiatives (1988: 33). The introduction of the partnership principle and the strengthening of monitoring procedures under the Structural Fund reforms of 1988, however, resulted in major institutional innovations

[4] Richard Hay, Director-General of Personnel and Administration of the European Commission, describes A grade officials as the senior Commission officials most directly involved in policy-making. Such officials work to instructions from the Commissioners, preparing policies, drafting reports and legislation and overseeing policy execution (Hay 1989).

[5] Nugent has estimated that while EU member states average 322 civil servants per 10,000 inhabitants, for *all* EU institutions the figure is 0.8 per 10,000 inhabitants (1994: 89).

which radically altered the intensity of contact between local actors and European Commission officials. In particular, the Commission hoped that its objective of involving project applicants directly in all stages of the decision-making process would be facilitated through the creation of monitoring committees at a regional level.

The establishment of monitoring committees in the late 1980s meant that DG XVI officials no longer had to wait in Brussels to receive delegations of local actors. By contrast, internally appointed Commission desk-officers for specific regions could regularly visit the regions for which they held responsibility themselves. As well as providing a formal forum in which the European Commission and local authorities could raise politically sensitive issues in the presence of central government officials, the monitoring committee requirements allowed regular informal contact between DG XVI and local officials around the fringes of the meetings. In this way, the 1989 Structural Fund reforms were designed to improve the channels for information flow between DG XVI and actors in the disadvantaged regions. Recalling Krislov, Ehlermann and Weiler's suggestion that the Commission's arms and eyes are not under its control (1986: 22), quoted at the start of the introductory chapter above, the ERDF clearly represents a field where this statement now requires modification. Although the arms of the Community remain outwith its direct control (after all the European Commission does not directly spend the money itself), the introduction of programming, partnership and monitoring committees significantly enhances its ability to observe what is takes place at the regional level.

Although the policy implementation literature has largely neglected European Community policies, the general significance of the European Commission's relative 'smallness' and hence of its dependence on outside expertise for policy information has been recognised in other approaches to the study of EC policy-making. Most notably, the booming industry in analyses of lobbying at the EC level[6] often draws attention to the expertise supplied by Brussels-based lobbies to the European Commission. Defining 'information' as 'any description of reality, considered to be of use to the receiver and possessing both factual validity and subjective values, interpretations or viewpoints', Van Schendelen considers the extent to which the exchange of information allows a lobbyist to influence the European Commission (1993: 3). Similarly, the adoption of North American theories of regulation and their application to EC policy-making has drawn attention to the importance of specialised

[6] See Andersen and Eliassen (1991), Streeck and Schmitter (1991), Greenwood, Grote and Ronit (1992), Mazey and Richardson (1992; 1993), and Gorges (1993). Although lobbying by sub-national government has been a notable feature of EC lobbying in recent years, this phenomenon has remained largely unexplored as yet in the literature. Mazey and Richardson (1993) and John (1994b) are exceptions in this regard.

agencies at the European level charged with the tasks of 'fact-finding, rule-making, and enforcement' (Majone 1990: 2). It is suggested in chapter 3, however, that the policy implementation literature has been slow to address the significance of the European Commission's dependence on external actors for information and the execution of policy.

An attempt is made herein to address the policy implementation literature to a specific EC policy. A conceptualisation of partnership in the context of ERDF programme implementation as a territorial political exchange involving three territorial levels is therefore a useful starting point to frame the implementation analysis which follows. The European Commission was heavily dependent on central government for information and expertise regarding the regional economic problems to be addressed in the early years of the ERDF. With the strengthening of partnership and programming the European Commission has succeeded in involving sub-national authorities directly in regional policy formulation and implementation, thereby reducing the length of the hierarchical chain of information transmission and seeking a more co-operative approach to the problem of regional economic development involving all competent authorities. In return, however, sub-national authorities expect to be involved in the negotiation of the development programmes and to influence the implementation process.

The problems of co-ordination resulting from the involvement of a multitude of regional level actors are common in situations of interdependence between levels of government. O'Toole has specified some of the key problems generally arising from the complexity of multi-organisational implementation settings: the lack of knowledge of other participants' preferences and motivations; the large number of units involved in the implementation setting; the opaqueness of the structure of interdependence; and, difficulties in monitoring and enforcement (1993: 40-41). These problems are all characteristic of the current ERDF implementation process, yet it remains a valid research question to assess the extent to which one actor can try to shape that process. The remainder of this chapter provides the theoretical background to approach this question. An 'implementation perspective' is adopted and should therefore be introduced at this stage.

2.3 Policy Implementation: 'Top-Down Pathology' or 'Bottom-Up Physiology'

2.3.1 *The Policy Implementation Perspective*

Although the subject of policy implementation has been a focus of sustained interest in the policy analysis literature for only two decades, the *de facto* problems of implementation have been apparent since the earliest of times: 'studying implementation is a new way of worrying about old problems' (Moran 1981: 39). Dunsire provides biblical examples to support his claim that 'scholars and advisors to princes' have been aware of the pitfalls of implementation, 'if not in so many words, since the beginning of the literature of civilised man' (1978: 20). The crux of the problem can thus be reduced to a crude form: one is rarely able to realise one's own plans, and bring them into effect exactly as intended within the time-frame anticipated. Within the recent policy implementation literature, however, how is implementation conceptualised?

It would be convenient if implementation could be defined simply as 'putting policy into effect', or as what happens after a decision has been taken, but this would not give sufficient attention to the recursive relation between policy and action addressed in chapter 1. A recent attempt to analyse the phenomenon of Thatcherism and its impact upon British society in the 1980s illustrates more clearly what is meant by 'an implementation perspective'. The authors identify an 'unambiguous tendency' in literature on Thatcherism 'to overestimate the Thatcher effect because of concentrating upon legislative change rather than upon change in policy outcomes' (Rhodes & Marsh 1992b: 3). Instead, the challenge should be to establish the extent to which policies changed substantially and then to answer why actual change is almost invariably less than expected. The distinction between outcome and output is addressed briefly below, but the Rhodes and Marsh study pinpoints clearly the essence of the problem. It is the relationship between intended output and output achieved (in a suitable time-frame) which is addressed by the implementation perspective.

The classic view on such questions is dated to an essay by Woodrow Wilson in 1887. Strange as it now seems, it used to be assumed that, under normal circumstances, the decisions made by elected politicians would automatically be put into action as long as bureaucrats were clearly under the control of the politicians. Politics as a goal-setting process was therefore distinguishable from administration as the transfer of goals into action. It was accepted that bureaucracy was a creative process and would involve bureaucrats reacting to unforeseen difficulties in transferring politicians' goals into action, but the classic view was 'prone to disregard the extent to which this activity would tend to transform policy, often fundamentally' (Hill 1993: 235). The apparent failure of the social welfare programmes of the Johnson era in the USA led to a reappraisal of this simplistic distinction between politics and administration and gave birth to the first generation of research in the policy analysis tradition focusing on implementation *per se*.

Pressman and Wildavsky's account of the ill-fated attempt by the US Federal Government to create 3,000 jobs for unemployed members of the ethnic minority communities in Oakland (California) has been labelled the 'classic post-mortem on the failures of the Johnson era' (Hyder 1984: 3). Prevailing wisdom seemed to assume that implementation was a straightforward administrative task; when expected events did not occur or turned out badly, consternation was not unusual. Pressman and Wildavsky sought to promote the opposite understanding, that implementation, even under the best of circumstances, is exceedingly difficult and that if a 'few good things really happened' it should come as a pleasant surprise (1973: xiii). The study of policy implementation therefore came to be the study of 'the missing link' between the decision to act and the outcome of the action (Hargrove 1975). In drawing attention to this erstwhile gap in the policy analysis literature, Pressman and Wildavsky went 'beyond the bounds' of traditional public administration, thereby providing a separate identity for the new field of implementation studies (Sabatier 1991: 258).[7] The authors changed the study of implementation in two critical ways: firstly, by stressing the complexity inherent in all inter-organisational action; and secondly, by drawing attention to the importance of the causal theories upon which all public policies are based. These should be considered in turn.

For Pressman and Wildavsky, 'the complexity of joint action' derives from the vast number of 'clearance points' inherent in implementing a policy in which many organisations are involved. The multiplicity of points at various levels of government at which the assent, or even the active co-operation, of participants is necessary for a programme to meet its objectives results in a dilution of the initial policy content. Consequently, 'the apparently simple and straightforward is really complex and convoluted':

> We are initially surprised because we do not begin to appreciate the number of steps involved, the number of participants whose preferences have to be taken into account, the number of separate decisions that are part of what we think of as a single one. Least of all do we appreciate the geometric growth of interdependencies over time where each negotiation involves a number of participants with decisions to make, whose implications ramify over time (1973: 93).

Sabatier points to this stress upon inter-organisational relations and policy networks as a distinguishing feature of implementation research, in stark contrast to the focus of traditional administrative studies on single organisations (1991: 258). Moreover, inter-organisational relations are characterised by actions carried out in a 'defensive

[7] Although Dunsire (1978) has provided a 'prehistory' of the implementation literature, Pressman and Wildavsky's 1973 work is widely regarded as a watershed in implementation studies.

mode'. Each actor is more concerned with the possibility of losing out than by the potential for collective gain, so that co-operative behaviour is the exception rather than the rule (Hyder 1984: 4). In this respect, the actors in inter-organisational implementation processes are normally risk-averse and prone to opportunism.

The second critical way in which the study of implementation was changed was the emphasis on policy outcomes (as opposed to legislative decisions). The dependent variable for implementation research became policy outcomes (for example, the number of new jobs created in the case of Oakland), and a key independent variable became the causal theory upon which a policy is based. 'Policy' was therefore defined as 'a hypothesis containing initial conditions and predicted consequences': 'policies imply theories. Whether stated explicitly or not, policies point to a chain of causation between initial conditions and future consequences. If X, then Y' (Pressman & Wildavsky 1973: xiv-xv). In other words, the assumption is that if X is done at time t_1, then Y will result at time t_2. Policies are often turned into programmes in order to meet some specified objectives and programmes are therefore distinguishable from policies.[8] A public programme consists of government action to achieve a set of objectives whose attainment is seen as a problem to be overcome. However, the very existence of a programme signifies that the 'if stage' of the hypothesis has been completed: in other words, X now exists at or after time t_1. If Y now fails to materialise at time t_2, then this failure may be explained not only by the multiplicity of clearance points required between t_1 and t_2, but also because the causal theory upon which the policy was based may have been faulty. Predicted consequences, even with the best of intentions and the most efficient organisational arrangements, will fail to materialise if the causal theory is based upon incorrect assumptions.[9] If policy is 'a hypothesis bound up in uncertainties', then implementation is 'the working out in practice of the hypothesis' (Hyder 1984: 15). Not only may there be significant difficulties in trying to put the hypothesis into practice (such as inter-organisational constraints), but the hypothesis itself may be ill-informed.

The publication of Pressman and Wildavsky's classic heralded a wave of implementation research in the mid-1970s. It has been noted that these early studies,

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[8] Alternatively, drawing upon the conceptualisation of 'policy' set out above in the introductory chapter, we can more accurately suggest that programmes are not distinct from some concrete entity of 'policy'. Rather, programmes can be conceptualised as elements of the *policy periphery*, the flexible end-products of policy formulation.

[9] A distinction repeatedly made in this thesis is that between regional policy as the provision of 'development hardware' (basic infrastructure such as roads or advance factory buildings), and regional policy as the provision of 'development software' (such as vocational training initiatives or technology transfer schemes). These variants of regional policy rely upon distinct causal theories. In other words, they make different assumptions about the nature of the regional economic problems to be addressed and hence about the causal mechanisms to bring about economic development.

which were largely carried out in the United States, were primarily case studies and came to very pessimistic conclusions about the possibility of effective implementation (Sabatier 1986: 21). The basic approach of Pressman and Wildavsky, starting from a policy decision and then examining the extent to which, and the reasons why, the objectives of that policy decision were achieved, was that adopted by these early case studies. This early wave came to be known as the 'top-down' approach to implementation research.

2.3.2 *'Top-Down' Approaches to Implementation Research*

Top-down approaches to implementation research were generally noted for presenting long lists of criteria which would have to be met to allow perfect and effective implementation. Hood (1976), echoing Woodrow Wilson's early separation of politics and administration, sets out in the first few pages of *The Limits of Administration* the criteria for perfect administration, and then devotes the rest of the book to showing how this can never accord with reality. Similarly, Hogwood and Gunn (1984) present a list of preconditions which would have to be satisfied if perfect implementation were to be achieved in practice in order to demonstrate 'why "perfect implementation" is unattainable' (1984: 198-206). The following list of questions, drawn up by Gunn, has been quoted at length as it shows clearly the problems highlighted by the top-down approach:

> Are there likely to be insuperable physical, political or other external constraints upon the programme? Will sufficient time and adequate resources be available? Will the necessary combinations of resources be available when required? Are there any relatively inflexible stocks of resources likely to be in short supply? Does the policy seem based upon an adequate understanding of the problem to be solved? Is the policy response perhaps over-elaborate, requiring too many links of assumed cause and effect to be forged? How dependent is the programme on getting the co-operation or consent of other agencies and powerful groups - and how many of them are likely to be involved? Are those who must participate in the programme all aware of, and agreed upon, its objectives? Have such aids been employed as are available to identify and sequence the detailed tasks needed to carry out the programme? (quoted in Hyder 1984: 2).

However, not even this survey of criteria for effective implementation is exhaustive. Sabatier and Mazmanian sought to identify *all* the legal and political 'tractability' variables affecting the different stages of the implementation process. Through the 'Sabatier-Mazmanian Framework', they then sought to 'synthesise this large number of variables into a shorter list of six sufficient and generally necessary conditions' for effective implementation:

(i) the policy must have clear and consistent objectives;
(ii) the policy must be based upon an adequate causal theory;
(iii) the implementation process must be legally structured to enhance compliance by implementing officials and target groups;
(iv) there must be skilful and committed implementing officials;
(v) the support of interest groups and sovereigns (in the legal and executive senses) is required; and,
(vi) changes in socio-economic conditions should not substantially undermine political support or the causal theory (Sabatier 1986: 23-5; Sabatier & Mazmanian 1980).

Such prescriptive lists, often favoured by writers adopting the top-down approach, echoed older themes in the literature of political science and administration. In particular, the philosophy of the top-down approach has been compared to that of other rationalist models in political science, and scientific schools in management thought. Each of these can be summarised briefly in turn to give the full essence of the top-down approach as it was presented in the 1970s.

The rational systems model is a normative approach attributed the status of a 'dignified myth' in which policy-making is essentially a rational process based on the classic steps from problem formulation, to appraisal of alternatives through to implementation. In such a model, 'the problem is seen as technical, the climate as consensual and the process as controlled' (Gordon, Lewis & Young 1993: 7). Linked to such models of the policy process were rationalist approaches to the study of decision-making within the process (Gregory 1989). The quintessential rationalist approach to decision making consists of the following stages: firstly, a search process is undertaken to discover goals; secondly, objectives are formulated on the basis of this search; thirdly, alternatives (strategies) are selected to accomplish these objectives; finally, outcomes are evaluated (Smith & May 1980: 148). 'Good' decisions were deemed to be those that had emerged from such a process. In other words, such rationalist models sought to be both explanatory and normative.

Within studies of organisational theory and organisational sociology there were also schools of management thought which later found echoes in the top-down approach to policy implementation. From the late 19th century, factory work involved the specialisation of activities, sub-division of tasks and fragmentation of functions (Pollitt 1993: 299). Emerging from the body of thought which developed in order to address the problems of managing such complexity was the school of 'scientific management' most closely associated with F. W. Taylor. The influence of his work

Principles of Scientific Management (1911) was enormous in both the private and the public sectors and the notion of 'Taylorism' was introduced in which 'systematic management' was a normative organising principle. The introduction to his 1911 work stressed 'the great loss which the whole country (the USA) is suffering through inefficiency in almost all of our daily acts' and that 'the remedy for this inefficiency lies in systematic management' (quoted in Pollitt 1993: 300). For Taylor, the best management was a true science, based upon clearly defined laws, rules and principles and he endeavoured to show this through his pioneering 'time and motion' techniques, whereby he studied in efficiency terms the detailed movements of individual workers completing specific tasks.

Of course, such rational/scientific approaches in both political science and organisational sociology have been attacked over the years, and these criticisms will be considered below. At this stage, however, the key point is to recognise the similarities between such approaches and the top-down approach to implementation. The rational/scientific approaches outlined above shared with the top-down approach to policy implementation a heavy emphasis on the importance of hierarchical control and the subordination of lower level actors. *In short, the focus was predominantly on the task of co-ordinating actors in line with central objectives and neglected the task of motivating lower level actors to pursue those objectives.* 'Rationalist' and 'managerialist' became terms of scorn applied by social scientists to writers in the top-down tradition of implementation research. It is to the alternative tradition that this chapter now turns.

2.3.3 *'Bottom-Up' Approaches to Implementation Research*

By the late 1970s, the top-down approach was increasingly questioned by a number of authors. One criticism of the approach was that it made the conceptual distinction between policy formulation/adoption on the one hand, and policy implementation on the other hand seem clearer in theory than it actually was in practice (Barrett & Fudge 1981). In contrast to this distinction, it may be the case that 'action precedes policy' and that 'where policy "stops" and implementation "starts" may be extremely difficult to determine' (Barrett & Hill 1984: 219). Under such circumstances, policy is not a static concept. Rather, policy is an evolving concept in which the interplay between implementation and the perception of the problem to be addressed is constant, so that implementation may even be the major determinant of how the problem is shaped. Under later interpretations, the policy/action continuum became blurred.[10]

Such reservations about the utility of drawing a clear distinction between policy formulation/adoption on the one hand, and policy implementation on the other had actually been addressed in the early implementation framework. In the second edition of Pressman and Wildavsky's *Implementation*, Majone and Wildavsky point out that the original edition did indeed allow for a blurred distinction between these two conceptual 'stages' in the policy-making process. Having said that there must be a goal against which to judge implementation, the authors accepted that the goal and the implementing actions were part of a process of interaction: 'what comes first, then, the chicken of the goal or the egg of implementation?' (Majone & Wildavsky 1979: 178). The proposed answer to this conundrum was that the interaction between the two is complex, and while policies undoubtedly shape actions, they are also 'continuously transformed by implementing actions that simultaneously alter resources and objectives' (ibid.: 184).

A more developed critique of the top-down approach to implementation research was advanced by those scholars who adopted the label 'bottom-up' to characterise their approach. While the overall focus of the top-down approach was upon how to steer the system to achieve (top-level) policy-makers' intended policy results, the bottom-up approach put the overall focus on 'strategic interaction among multiple actors in a policy network' (Sabatier 1986: 33). Researchers adopting the bottom-up approach identified a series of flaws in the top-down approach as follows:

(i) the theoretical distinction between policy formulation and policy implementation was again criticised as unsustainable in practice as policies are made and re-made in the process of implementation;
(ii) too much attention was given under the top-down approach to the objectives of top-level actors since it is rarely the case that policies embody clear and consistent objectives;
(iii) often there is no clear policy as such, but rather a multitude of directives;
(iv) policy decision makers were assumed to be the key actors in the process, with low level actors viewed as mere impediments to the achievement of top-level objectives;
(v) the lists of criteria drawn up in many top-down accounts as essential for effective implementation were unrealistic and ignored the extent to which discretion at the lower levels is inevitable; and,

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[10] The example of the 'recursive' nature of the policy process given in chapter 1 is likewise appropriate in illustrating the blurring of the policy/action continuum. ERDF 'policy' (as it emerges from Brussels) cannot be clearly distinguished from the actions of Department of Trade and Industry officials in interpreting Regulations or from the actions of local actors who must submit project applications in line with those Regulations. It is not particularly helpful to try to split 'policy' from 'action' under such circumstances.

(vi) similar to (v), 'street level' actors will assume adaptive strategies to deal with the unintended consequences which inevitably result from the lack of full information at the centre (Sabatier 1986: 30-1; Rhodes & Marsh 1992b: 6-7).

In essence, the bottom-up approach of Hanf and Scharpf (1978) and Barrett and Fudge (1981) argued that 'legislative intent is usually sufficiently vague and the amount of hierarchical control within organizations sufficiently weak that street-level implementing officials have very substantial discretion' (Sabatier 1991: 259). The concept of 'street level bureaucrats', and their role as *de facto* creators of policy, is therefore of vital importance in the bottom-up approach. The fact that policy is rarely applied by decision makers directly to the outside world, but is almost always mediated through institutions and actors is accepted by both top-down and bottom-up approaches. However, what for top-level policy makers was the problem of 'the implementation deficit' was turned on its head by Michael Lipsky (1993) to advance a theory of the work of lower level officials as they experience it as individuals. Many of Lipsky's 'street level bureaucrats' were (semi-) professional workers in public welfare who found themselves in positions of power *vis-à-vis* both their employing agency (usually the government) and their clients. Policy-makers cannot envisage (even if they wanted to) all unforeseen circumstances. The result is that street level bureaucrats find themselves with quite considerable levels of discretion at the 'coal face' in dealing with situations that had not been planned for (Hudson 1993). They 'routinise' their actions so that their work experience is dictated by 'coping strategies', designed to deal with the problem of discretion in the context of unclear guidelines from above. Lipsky's seminal work therefore advanced a model whereby 'the decisions of street level bureaucrats, the routines they establish and the devices they invent to cope with uncertainties and work pressures effectively *become* the public policies they carry out' (1993: 382).

This radical departure from the rationalism of the top-down tradition consequently advocated a phenomenological approach to understanding the subjective behaviour of local level actors. A key work in the bottom-up approach to pick up and develop this methodological innovation was that of Hjern and Porter. These authors suggested that 'perceptions of deficits in programme implementation are distorted and exaggerated by analytic frameworks which use organizations or individuals as the basic unit of analysis' (1993: 248). They pointed to a gap between atomistic theories in economics on the one hand, and comprehensive planning and management theories in public administration on the other. Economic theories of bureaucracy advocated competition among governments in order to enhance economic efficiency. Public administration theorists, by contrast, tried to design 'comprehensive, functionally uniform, and hierarchical organizations' where all functions were brought together under one roof, characterised by the authors as the 'Lonely Organization Syndrome' (ibid.: 249). For Hjern and Porter, however, both views were anachronistic since policies were neither implemented by the invisible hand of markets nor by monolithic government bureaucracies. To bridge this gap they suggested a focus on 'implementation structures', or 'multiorganizational clusters of organizations', some of which may be parts of markets while others may be parts of government hierarchies. Moreover, the authors suggested that such clusters would involve *parts* of many public and private organisations co-operating in implementation, and not necessarily the *whole* of each organisation.[11]

Hjern and Porter also argued that goals within organisations are complex and differentiated. As such, they cannot be reduced to a consistent and clear set of objectives. The authors identified two general orientations towards administration and implementation: an 'organizational rationale' and a 'programme rationale'. A subset of members of an organisation will follow an 'organizational rationale', that is, 'they adapt the goals of the programmes within the organization to fit a "holistic" strategy which conforms with their perception of the niche the organization fills within its environment' so that 'programmes, in this context, are treated as instruments for ensuring the overall survival of an organization' (1993: 253). But almost no programmes are implemented by one organisation or by one organisation itself in isolation:

> Programmes are implemented by a cluster of *parts* of public and private organizations, i.e. implementation structures. An implementation structure is comprised of subsets of members within organizations which view a programme as their primary (or an instrumentally important) interest. For these actors, an implementation structure is as much an administrative structure through which purposive actions are taken as the organisations in which they are employed (Hjern & Porter 1993: 253).

[11] Goggin, Bowman, Lester and O'Toole suggest that the 'network analysis' approach was developed largely by Benny Hjern and his colleagues - David Porter, Ken Hanf and Chris Hull: 'it begins by identifying the "network of actors" involved in service delivery in one or more local areas and asks them about their goals, strategies, resources, activities and contacts. Essentially the researcher sets out to reconstruct what actors are part of the implementation process, then describes and analyses their patterns of social interaction' (1990: 190). The network analysis approach views the implementation process from the bottom-up. Hanf and O'Toole (1992) have suggested, however, that research on networks now focuses on the formulation of public policy to the neglect of studies of implementation of such policy. For the debate on the wider use of the network concept in policy studies, see Jordan (1990), Rhodes (1990), Rhodes and Marsh (1992a), Marsh and Rhodes (1992) and Van Waarden (1992). Dowding (1994a) highlights some of the limits of the policy networks concept. In short, the emphasis placed herein on resource interdependencies amongst local actors overlaps with the network concept, but no further use is made of the concept in this research framework. As Scharpf has suggested, the concept is generally strong on description, but weak on explanatory power (1993: 22).

Within implementation structures, members are therefore likely, to some extent, to place programme objectives above organisational objectives, in other words, to adopt a 'programme rationale' according to the authors. This is a key distinction. It is important to note at this stage that, according to the authors, participants in an implementation structure address either organisational goals or programme goals or *both*. Again, the 'implementation structures' approach sought to be prescriptive as well as descriptive. Implementation structures provided not only a new unit of analysis and a methodological approach, but the authors suggested it should form the core of a strategy for administering multi-organisational programmes.[12]

In general then, bottom-up approaches stressed implementation as a political rather than a managerial problem. The essence of the bottom-up approach has been captured succinctly as follows:

> Implementation is seen as a negotiating process in which individual actors pursue their disparate objectives employing multiple strategies. Compliance with central objectives is an inappropriate yardstick of success and failure. They adopt an action perspective, focusing on the perceptions of individual actors, the organizations within which they work and the factors which influence behaviour. The emphasis is placed on the multiplicity and complexity of linkages, the problem of control and co-ordination and the management of conflict and consensus (Rhodes & Marsh 1992b: 7).

The 'management of conflict and consensus' (the simple acceptance of politics into the implementation equation) also echoes older debates in political science and administration literature in the manner sketched above for the top-down approach. In contrast to the rational systems model of policy-making, there was an alternative interpretation of policy making as 'an inescapably *political* activity into which the perceptions and interests of individual actors enter at all stages. In this case implementation becomes a problematic activity rather than something that can be taken for granted, as in the rational process model; policy is seen as a bargained outcome, the environment as conflictual and the process itself is characterised by diversity and constraint' (Gordon et al. 1993: 7).

Rationalist approaches to decision making came under attack most notably in the work of Charles E. Lindblom. His alternative science of 'muddling through' or

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[12] Richard F. Elmore likewise proposed a prescriptive strategy for policy implementation. His model of 'backward mapping' suggested a strategy for capitalising on discretion as 'a device for improving the reliability and effectiveness of policies at the street level' (1979: 610). Beginning not at 'the top' of the implementation process, but 'at the last possible stage, the point at which administrative actions intersect private choices' (ibid.: 604), the assumption of the 'backward mapping' model was that if the motivations of 'the bottom' were incorporated into policy design, then, policy would be more likely to be implemented successfully.

'disjointed incrementalism' has been celebrated as endowing political science with the wisdom that 'politics is not for "curing"' (Gregory 1989: 142). The problems of managing conflict and consensus never disappear and Lindblom has been praised for resisting 'the temptation to regard politics, in any of its multitude of forms, as pathological obstructions to the achievement of more rational policy outcomes' (ibid.: 151). Instead, Lindblom's criticism of rationalist approaches was two-sided (both sides rooted in a pluralist analysis of politics): firstly, the pressures upon decision makers are such that 'rationality' cannot be attained and most decisions are incremental in that they involve only small adjustments to previous practice; secondly, rational decision making may approximate to social engineering while the most advanced democratic process would involve incremental adjustment on the basis of pluralistic pressures on decision makers. The conceptual inheritance shared by the incremental approach to decision making and the bottom-up approach to implementation is obvious, especially when the assumed relationship between means and ends in the former is considered:

> This model [disjointed incrementalism] posits the decision maker as starting not with some ideal goal but with policies currently in force ... In contrast to the conventional [rationalist] view which sees means adjusted to ends, incrementalism promotes the opposite, allowing for a continuous and reciprocal relationship between means and ends (Smith & May 1980: 150-1).

Similarly, management/organisational thought has developed from the early days of Taylorism to incorporate less rationalistic models with concepts that were later adopted in bottom-up accounts of policy implementation. In an influential article published in 1978, Elmore used the organisational studies literature to construct four models of social programme implementation. Taylorism and its central assumption that subordinate actors were merely 'manipulable cogs in an organisational machine' (Hill 1993: 297) was very much the tradition referred to in Elmore's organisational model of 'implementation as systems management'. In such a model, organisations operate as 'rational value maximisers' where 'the essential attribute of rationality is goal-directed behaviour' and organisations are deemed 'effective to the extent that they maximise performance on their central goals and objectives' (Elmore 1978: 191). Implementation in this model is therefore a supremely rational process which 'consists of defining a detailed set of objectives that accurately reflect the intent of a given policy, assigning responsibilities and standards of performance to subunits consistent with these objectives, monitoring system performance, and making internal adjustments that enhance the attainment of the organization's goals' (ibid.: 191).

In contrast to this model, Elmore identifies in the organisational studies literature three variants of the bottom-up model of implementation: the bureaucratic process model; the organisational development model; and, the conflict and bargaining model. The key principle of the model of implementation as a *bureaucratic process* is that the central attributes of organisations are 'the irreducible discretion exercised by individual workers in their day-to-day decisions and the operating routines that they develop to maintain and enhance their position in the organization'. Implementation therefore 'consists of identifying where discretion is concentrated and which of an organization's repertoire of routines need changing, devising alternative routines that represent the intent of policy, and inducing organizational units to replace old routines with new ones' (1978: 199-200). In the model of implementation as *organizational development* the key principle is that 'organizations should function to satisfy the basic psychological and social needs of individuals - for autonomy and control over their own work, for participation in decisions affecting them, and for commitment to the purposes of the organization'. The implementation process according to this model is therefore 'one of consensus building and accommodation between policy-makers and implementors. The central problem of implementation is not whether implementors conform to prescribed policy but whether the implementation process results in consensus in goals, individual autonomy, and commitment to policy on the part of those who must carry it out' (ibid.: 209). The third variant of the bottom-up approach, implementation as *conflict and bargaining*, views organisations as 'arenas of conflict in which individuals and subunits with specific interests compete for relative advantage in the exercise of power and the allocation of scarce resources'. In this model implementation therefore 'consists of a complex series of bargained decisions reflecting the preferences and resources of participants. Success or failure of implementation cannot be judged by comparing a result against a single declaration of intent, because no single set of purposes can provide an internally consistent statement of the interests of all parties to the bargaining process. Success can only be defined relative to the goals of one party to the bargaining process or in terms of the preservation of the bargaining process itself' (ibid.: 217-8).

These models have been sketched briefly to show the development of 'bottom-up' ideas in the organisational studies literature and thereby to clarify the conception of the bottom-up approach to implementation in policy studies. Rather than 'bottom-up ideas', however, it is more accurate to speak of a common emphasis on the importance of motivational concerns. The various approaches outlined above shared with the bottom-up approach to policy implementation a heavy emphasis on the importance of discretion in the behaviour of lower level actors. *In short, the focus is* *predominantly on the motivations of lower level actors and neglects the task of ensuring co-ordination in the pursuit of central objectives.* As such the focus can be contrasted with that which guides top-down analysis.

Bottom-up approaches to implementation analysis are clearly distinguishable from top-down approaches in the intellectual heritage of the concepts employed as well as the overall focus adopted. Three key strengths of the bottom-up approach have been identified by Sabatier as follows: it developed an explicit methodology for identifying and analysing policy networks (the 'implementation structures' approach of Hjern and Porter); it did not focus exclusively on the attainment of formal policy objectives and was therefore free to identify all sorts of unintended consequences of actions; and it could deal with policy areas where no actor is pre-eminent (1986: 34). On the other hand, the bottom-up approach was also subject to criticism and had a number of serious flaws:

(i) just as top-down approaches can overestimate the importance of central *vis-à-vis* local level actors, bottom-up approaches can overemphasise the ability of local level actors to frustrate the centre, since discretion may well only exist within tightly defined 'rules of the game';
(ii) linked to (i), the centre can often indirectly alter the goals and strategies of local level actors through its ability to affect the institutional structure in which they operate;
(iii) present participants in an implementation structure are taken as given without examining the prior effort of various actors to affect participation; and,
(iv) actors' perceptions and activities are identified but are relied upon too heavily so that the bottom-up approach suffers from the flaws of 'grounded theory' (Sabatier 1986: 34-5; Rhodes & Marsh 1992b: 7).

In general, the bottom-up approach is not concerned with the implementation of central objectives but with the motivations and interaction of actors in a policy sector. As such, they have tended to concentrate on policy sectors where organisational complexity is a predominant feature, such as local economic development or human resource development. As Sabatier points out, the vast majority of early case studies (both top-down and bottom-up) dealt with social programmes initiated by federal authorities in the United States of America or in the Federal Republic of Germany (e.g. Pressman & Wildavsky 1973; Hanf & Scharpf 1978) and almost certainly exaggerated the autonomy of street level implementers *vis-à-vis* formal policy makers (1991: 261). There may be, by contrast, other constitutional settings and policy sectors where the multitude of actors is not so confusing and where central objectives are clearly identifiable. The question therefore arose, when is the top-down approach more appropriate than the bottom-up approach, and vice versa?

Like many such dichotomies in the social sciences, the gulf between top-down and bottom-up approaches within the implementation perspective oversimplifies practical situations. Pressman and Wildavsky were 'pathologists' according to Dunsire (1978), interested in dissecting the corpse of failed policies to understand where they went wrong and what were the causes of death (cf. Hogwood & Peters 1985).[13] Dunsire, by contrast, claims to be interested in 'the physiology of the normal process' (quoted in Hyder 1984: 5). Should policy analysts be pathologists in their approach to the problem of implementation (with all the pessimism that implies), or should they be physiologists looking optimistically at lively processes throughout the policy system (not just at the head)? Alternatively, can a model be devised by which to consider simultaneously the respective concerns and build upon the strengths of both? It is to attempts to achieve the latter that the chapter now turns.

2.4 Beyond the 'Top-Down' versus 'Bottom-Up' Dichotomy

This section considers in more detail the apparent dichotomy between top-down and bottom-up approaches to policy implementation. In particular, it considers the normative weight attached to each, before addressing the suggestion by Rhodes and Marsh that different approaches should be chosen according to the problem that is to be explained. Three attempts to move beyond the top-down versus bottom-up dichotomy are then sketched to complete the review of the policy implementation literature. Firstly, Berman's model of 'programmed' and 'adaptive implementation' (1980) is highlighted to illustrate his claim that different practical approaches to implementation depend upon the policy situation in which any governmental actor is located. Secondly, longer term approaches to policy change are then considered and the concept of 'policy learning' is introduced (Sabatier 1986; 1991). Thirdly, the 'evolutionary model' of policy implementation (Hyder 1984) is outlined. The section then concludes with a critique of the policy implementation literature and indicates the conceptual weaknesses that need to be addressed in any reformulated model of policy implementation.

Policy studies in general necessarily absorb contributions from various academic disciplines. In trying to explain interrelations between the state, politics, economy and society, contributions to policy studies are drawn from economics, political science, sociology, anthropology, geography, planning, management and even applied sciences (Minogue 1983). This interdisciplinary mix, however, conceals a danger. When the field in policy studies is so full of 'alternative, competing

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[13] In a lighter vein, Pressman and Wildavsky themselves deny that their aim is to be 'Monday morning quarterbacks', to discuss mistakes 'with the clarity that only hindsight can give' (1973: 6).

constructions of reality', researchers must guard against the danger of passing time in their respective trenches sniping at each other. For Minogue, this problem 'resides partly in the lack of experience of policy in practice among those who predominate in the theoretical field'; moreover, the problem is cumulative because there is nothing more likely to widen the gap between practitioners and theorists than the latter indulging in overarching grand constructions of 'reality' (1983: 65). The debate between top-down and bottom-up approaches to policy implementation has, on occasion, exaggerated the defects of either approach.

There are several examples of caricatures of both the top-down and the bottom-up approaches in the literature on implementation theory by proponents of the opposite approach. These arise partly as a result of the normative weight assigned to each by its respective advocates. In criticising the bottom-up approach, Hogwood and Gunn ask whether we should view with equanimity the persistence of racist attitudes at the street-level among police officers when the Home Office is trying to promote better relationships between the police and black youths? Similarly, if the UK parliament decided to move from left-hand to right-hand driving on roads there, should it be left up to traffic wardens or road-users when (if at all) the change-over should take effect (1984: 208)? Similar caricatures of the top-down approach are evident in the writing of some bottom-up proponents. Hill, for example, criticises the statement that means justify ends (a statement often attributed to top-down approaches where central objectives take on paramount importance). He points out that such justifications for an 'autonomous state' often involve engaging in rational planning in the style of Orwell's 'Big Brother' (1993: 196).[14] Such caricatures bring the normative implications of each model to the fore.

In attempting to account for such caricatures, it has been argued that rationalistic top-down approaches provide guides of how policy *ought* to be carried out, while incrementalist bottom-up approaches are descriptions of how the process *actually operates* (Hogwood & Gunn 1984: 207; Smith & May 1980). As shown above, however, Gregory (1989), Elmore (1979) and Hjern and Porter (1993) clearly present normative models in which decision making and implementation *ought* to be incremental and bottom-up. Conceiving of top-down approaches as prescriptive, and bottom-up approaches as descriptive does not therefore take us beyond the impasse. By contrast, it has been argued that the different approaches explain elements and stages of the same process in different ways. It is most important simply to select the approach best suited to the approach at hand. As Rhodes and Marsh explain, they do not set out to identify local implementation structures in order to understand the

[14] Likewise, in defence of incrementalism in politics, Gregory presents a formidable attack on political rationality. However, citing the 'Final Solution' of the Third Reich as a dramatic illustration of political rationalism (1989: 143) stretches the debate to a ludicrous extent.

patterns of interaction within sectors. Rather, given Thatcher's intention to operate 'conviction government' by setting objectives and forcing them through against all opposition, the UK government in the 1980s had clearly stated policy objectives. The authors set out to assess the varying outcomes in relation to central policy decisions. It would also have been possible to conduct the study adopting a bottom-up approach to determine the extent to which local level actors were able to frustrate central objectives. However, the choice of a top-down approach by the authors reflects their hypothesis that the 'failure' of the Thatcher Government was due to a 'self-inflicted implementation gap': the fact that the Thatcher Government itself adopted a rigid top-down strategy contributed to the many shortfalls in expected outcome. Had the explanatory framework for Rhodes and Marsh been conceived differently, a bottom-up approach could have been adopted to look at the record of implementation in the Thatcher years (1992b).

The emergence of the contending approaches to policy implementation can be explained partly as a result of the fact that different writers looked at different types of policy. Just as the development of a theoretical context for any study depends on what the problem at hand actually is, so the prescriptive choice of a practical strategy for implementing a policy depends upon the nature of that particular policy and the organisational context in which it operates (Hyder 1984: 5). The two basic strategies identified by Berman (1980), 'programmed implementation' and 'adaptive implementation', deserve some consideration in this context. Given the relevance of these concepts for the model of policy implementation as incomplete contracting set out below, it is worth quoting Berman at some length here:

> Two schools of thought and practice have developed regarding the design of implementation strategies. One view, which could be called *programmed implementation*, assumes that implementation problems can be made tolerable, if not eliminated, by careful and explicit pre-programming of implementation procedures. The other view, which could be called *adaptive implementation*, holds that policy execution can be improved only by processes that allow initial plans to be adapted to unfolding events and decisions. Although these approaches are not truly opposites, they are strikingly different in point of view and practice. They diagnose the source of implementation problems differently and offer apparently contrary prescriptions ... I will not choose sides, however, for the debate itself can distract policy makers and researchers from a fundamental truth of implementation: there is no universally best way to implement policy. Either programmed or adaptive implementation can be effective if applied to the appropriate policy situation, but a mismatch between approach and situation aggravates the very problems these approaches seek to overcome (1980: 205-6).

Programmed implementation calls for 'clarity, precision and comprehensiveness' of the preliminary policy before the final decision on policy alternatives is taken. In other words, the real effort in devising an effective policy is required in the period *before* a decision is taken. After the decision is taken, all levels of government or of the organisation involved are expected to follow the pre-programmed implementation procedures. Implementation becomes essentially a monitoring task. Implementation problems, according to the programmed approach, can result from three sources:

(i) ambiguity in policy goals resulting in or caused by misunderstanding, confusion, or value conflict;
(ii) participation of too many actors with overlapping authority; and,
(iii) implementors' resistance, ineffectualness, or inefficiency (ibid.: 208).

Programmed implementation is therefore clearly based on the general insights of the top-down approach, and on the importance of co-ordination in particular. Adaptive implementation, by contrast, offers a 'different diagnosis and prescription', reflecting the general insights of the bottom-up approach and the specific importance of involving and motivating lower level actors:

> Implementation problems arise because of the over specification and rigidity of goals, the failure to engage relevant actors in decision-making, and the excessive control of deliverers. The ideal of adaptive implementation is the establishment of a process that allows policy to be modified, specified, and revised - in a word, adapted - according to the unfolding interaction of the policy with its institutional setting. Its outcomes would be neither automatic nor assured, and it would look more like a disorderly learning process than a predictable procedure (ibid.: 210-1).

This distinction between programmed and adaptive approaches to implementation is useful, particularly as the strategy adopted should be contingent upon different delivery systems in different situations. Berman offers five situational parameters (the scope of change implied by a policy, the level of certainty over the validity of the theory or technology underlying a policy, the degree of conflict over policy goals, the structure of a policy's institutional setting, and the stability of a policy's environment) which determine the strategy appropriate for any given situation. The notion that implementation must be uniform for all policy situations, invariable over time and homogeneous across all organisational levels is therefore rejected. However, *the possibility that appropriate elements of each strategy may be* *required simultaneously by an institution is not given enough attention in Berman's model.* From the perspective of central actors, co-ordination of lower level actors is important and hence a degree of programming should take place. However, as was emphasised at the beginning of this chapter, no central policy-maker is omniscient. In many policy situations, therefore, elements of *both* programmed and adaptive strategies are required by central policy-makers. Far from being mutually exclusive, the two are complementary. Before turning to the mutual importance of co-ordination and motivation as emphasised in the contracting approach under economic neo-institutionalism, however, other attempts to move beyond the top-down versus bottom-up dichotomy should be considered.

Another suggested means by which to move beyond the simple top-down versus bottom-up dichotomy is to look at the implementation of a given policy over a longer time frame. In attempting to provide a synthesis of top-down and bottom-up approaches, Sabatier proposed the longer term 'advocacy coalition framework of policy change' (1986). He proposed a focus on 'advocacy coalitions', actors from various public and private organisations who share a set of beliefs with regard to a policy and seek to realise their common goals over time. His central argument was that early studies of implementation processes adopted a relatively short time span of 2-4 years study after the basic policy decision, which in many instances was a new law. By contrast, when a 10-15 year time span is adopted, a large extent of 'policy oriented learning' can be identified. Over time, vague objectives can be clarified, poor causal theories can be improved, and support for policy adaptation can be built up at all levels. As such, Sabatier sought to harness some of the presumed technical expertise of the top-down approach with the more openly political policy process of the bottom-up approach. In other words, he sought to incorporate bottom-up concerns over the variety of actors and perspectives with top-down concerns over the extent to which socio-economic conditions and legal instruments constrain the options of all actors. The focus thereby shifts at one and the same time from policy implementation in the present to policy change over periods of a decade or more, and from specific governmental organisations to policy sub-systems, or policy networks (Sabatier 1991; Jenkins-Smith & Sabatier 1994). However, in such a framework, attention shifts from immediate policy implementation *per se* to policy change over long time spans of several decades.

A similar, longer term approach, focusing on the importance of the policy cycle as a learning process, was sketched out in Hyder's 'evolutionary model' of policy implementation (1984). In the 'harsh world of the 1980s' in the UK (the author cites 'rolling back the state', economic restraint, and inter-organisational turbulence), implementation procedures had to be flexible and experimental and pay the fullest attention to the policy environment. Policy outcomes were uncertain and policies themselves necessarily had to be adaptable. Hyder therefore accepted the conception of implementation as a 'policy-action continuum in which an interactive and negotiative process is taking place over time, between those seeking to put policy into effect and those upon whom action depends' (Barrett & Fudge 1981: 25). Implementation procedures, as in the 'adaptive approach' of Berman, must necessarily leave scope for innovation. Furthermore, the policy cycle should be viewed as a learning process.

As suggested above, one of the innovations of Pressman and Wildavsky's 1973 study was to show the importance of the causal theories upon which policies are based. All policies contain initial hypotheses which are worked out in practice through the process of implementation. However, this process is evolutionary. A problem (P_1) will be addressed by a policy based upon a hypothesis (H_1), will be implemented, and will be evaluated. The problem will thereby be reformulated (P_2) and the policy will evolve upon the basis of a revised hypothesis (H_2) etc. The model is evolutionary because policy learning occurs so that through the process the initial policy based upon hypothesis H_1 takes on new forms based on H_2 then H_3 etc. Subsequent policies are not necessarily 'better' than previous ones, but new hypotheses emerge as a response either to the process of implementation acting on the environment or to extrinsic changes in the environment itself. The model is defended from the criticism that it is simply a restatement of classic incrementalism by pointing out that there is nothing at all that assumes that changes should be gradual (Hyder 1984).

It is clear from the above review that the last two decades of implementation research have produced a wealth of literature adopting 'the implementation perspective'. The initial top-down versus bottom-up dichotomy, echoing longer running debates in political science, organisational sociology and administration, clearly set out the terms of debate in the field. Reviewing the field of implementation studies in 1987, Palumbo wrote of the theoretical developments to that time:

> To date, only a partial or middle-range theory of implementation has been developed. It explains how implementation usually is done, some of the conditions under which implementation may succeed, the reasons why adaptation and change during implementation are inevitable, and something about the direction of adaptation and change (1987: 91).

The inevitability of policy adaptation and change through implementation is perhaps the most valuable lesson of this literature. Further lessons are greatly disputed. Despite the efforts of Berman (1980), Hyder (1984) and Sabatier (1986; 1991), the influence of the top-down versus bottom-up dichotomy remains strong.[15] The enduring attraction of such approaches reflects the fact that they represent sharply contrasting interpretations of where within a political system the ultimate control over policy resides, and more importantly, ought to reside. It is suggested herein that *together* the two approaches provide complementary insights into policy implementation. The failure to recognise this fact, and the absence of a conceptual framework whereby the key concerns of each approach can be integrated, has hindered the development of implementation theory. Implementation studies have generally failed to stress the mutual importance of the tasks of co-ordination of actors *and* motivation of those same actors. To this extent, the policy implementation literature has been limited in its theoretical development.

A recent chapter by L.J. O'Toole (1993) usefully addresses the limits of the traditional policy implementation literature. He accepts that the methodological sophistication of implementation research has advanced in the last two decades: while early writings tended to consist of single case studies, or a very small set of cases, more recently there have been efforts to initiate comparative, longitudinal and larger-N studies to test propositions developed in the literature.[16] Efforts to incorporate the insights of the so-called 'top-down' and 'bottom-up' approaches to implementation (e.g. Sabatier 1991) are cited as another indicator of increasing methodological finesse. And yet, O'Toole is still searching for 'a more mature scholarship on policy implementation':

> While descriptive work has progressed significantly and methodological sophistication has aided the tasks of theoreticians, there is as yet little agreement on a theory of implementation, even within relatively restrictive classes of cases. Top-down and bottom-up differences persist among analysts, and a great deal of what passes for conventional wisdom among scholars about policy implementation has a proverbial character. Therefore, the study of policy implementation stands in need of additional assistance in rendering theoretically

[15] Goggin, Bowman, Lester and O'Toole should also be mentioned here for their attempt to move implementation theory toward a 'third generation'. The objective of 'third generation' research is to be more 'scientific', 'to shed new light on implementation behavior by explaining why that behavior varies across time, across policies, and across units of government and by predicting the type of implementation behavior that is likely to occur in the future' (1990: 171). The authors provide a 'Communications Model of Intergovernmental Policy Implementation' whereby 'communications theory offers a means of synthesizing the "top-down" and "bottom-up" approaches that dominate (and divide) the implementation literature ... The model uses communications theory as the glue that holds the pieces together. Messages, their senders, and the messages' recipients are the critical ingredients. Decoding these messages and absorbing them into agency routine is what implementation is all about' (ibid.: 33-40).

[16] See Goggin (1986) and Goggin, Bowman, Lester and O'Toole (1990) for accounts of such 'second generation' research.

sensible the important issues that are the subjects of investigation (1993: 28).

O'Toole turns to the literature of rational choice and game theory for possible theoretical assistance.[17] He sets out some of the challenges facing any effort to apply formal rational-choice models to arenas of multi-organisational policy implementation, but his methodological suggestions as to how the complexity and uncertainty of real implementation settings could be reduced in order to facilitate modelling are not of concern here.

Like O'Toole, the approach adopted herein accepts that the study of policy implementation stands in need of additional assistance to move beyond the top-down versus bottom-up dichotomy. Unlike O'Toole, however, the 'uncertainty factors' he identifies do not constitute a constraint to be simplified before a model can be developed. Rather, the persistence of the combined factors of endemic uncertainty and policy/institutional complexity (when combined with the assumption of bounded rationality) mean than implementation can be conceived as a process of *incomplete* contracting. It is suggested below that the model of incomplete contracting builds upon the implementation perspective reviewed in this chapter and provides an opportunity for conceptual advancement in the study of policy implementation. The following section therefore sets out the model of incomplete contracting, emphasising its relevance to the body of implementation literature reviewed in Sections 2.3 and 2.4.

2.5 The Model of Policy Implementation as Incomplete Contracting

The remainder of this chapter elaborates the model of policy implementation as incomplete contracting, indicating both the theoretical background from which it is developed and its key features. The starting point of the model is the exchange-based

[17] Abell (1990) provides a collection of the key texts in the development of rational choice theory. In general, rational choice theory presents an actor-driven methodology placing explanatory weight on the preferences of actors, their ability to order these preferences, and their motivation to pursue courses of action satisfying such preferences (see Riker 1990: 172; Shepsle 1989). Assumptions regarding the motivations of actors are made 'in order to predict how, generally, they will behave in certain social situations, usually assumptions of egoistic maximisation' (Dowding 1994b: 106-107). Marsh (1994) criticises rational choice theory, emphasising structural determinants of action, while Tsebelis (1990: 18-51) provides a spirited defence in the face of such critiques. Rational choice theory is of interest in this context to the extent that this research makes the methodological assumption that opportunistic behaviour is significant, although not denying the importance of the structure in which actors find themselves to the shaping their motives. It should be emphasised, however, that the 'nearly omniscient Homo economicus' (Simon quoted in Williamson 1993: 10) who populates some formulations of rational choice theory is not considered herein, as the assumption of bounded rationality set out in chapter 1 confirms. For an account of 'game theory' from a political science perspective, see Ordeshook (1986; 1992).

conceptualisation of power highlighted in the introductory chapter and explored in Section 2.2 above. It was suggested therein that power-dependence relationships characterise the interaction between the European Commission, national and sub-national actors in the field of EC regional policy. DG XVI's relatively small size and the fact that it does not directly implement its own policies means that it is dependent upon national and sub-national actors for expertise, field information, knowledge resources and the supply of projects which it can co-finance in order to utilise its budget. In turn, national and sub-national actors depend upon the European for financial resources and guidance as to how such finances can be claimed. To paraphrase Parri (1989), such interdependence implies that governance no longer involves the simple deployment of central authority through decrees and enforcement. Rather, the conceptualisation of power employed herein teaches that contemporary governance structures often involve complex exchange relationships: the 'voluntary transfer of resources between actors on the basis of at least some kind of reciprocity', to repeat Macneil's observation (1990: 152).

Neither the top-down and bottom-up approaches to policy implementation examined in Section 2.3, nor the later models examined in Section 2.4 capture the significance and extent of such exchange relationships. The top-down approach places the main focus of analysis on the ex-ante legal and political structuring of the implementation process (i.e. before a policy decision is taken) by top-level actors. In contrast, the bottom-up approach places the main focus of analysis on the ex-post motivations of local level actors, given the discretion such actors invariably enjoy in the execution of policy decisions. While both approaches provide key insights into the nature of the implementation problem, a more complete understanding demands recognition of the fact that policy decisions establish an *ongoing* exchange relationship between interdependent actors: the process of bargaining cannot be concentrated in the ex-ante preparation of a policy decision, nor can it be concentrated in the ex-post execution phase. The exchange of resources continues across both phases. *The primary methodological innovation presented by the model of policy implementation as incomplete contracting is thus a shift in the unit of analysis to the exchange itself, encompassing both conceptual 'phases'.*

The conceptual parentage of the incomplete contracting model lies in the realm of economic neo-institutionalism. This body of literature is introduced briefly in Section 2.5.1 to present the general background of the model. More specifically, the branch of that literature specialising in the analysis of 'transaction costs' is particularly instructive. Transaction costs analysis, pioneered by Ronald Coase and advanced by Oliver Williamson, focuses on the costs of organising an exchange. A central contention of transaction costs analysis is that exchange relationships are invariably governed by a contract, irrespective of whether such contracts possess any formal, legal status. Section 2.5.2 illustrates the relevance of transaction costs analysis for students of policy-making and stresses the potential usefulness of the contracting approach when applied to policy implementation. Repeating the assumptions of bounded rationality and opportunism set out in the introductory chapter, Section 2.5.3 suggests that contracts can rarely ever be completely specified in advance. This section also sketches the dimensions of the exchange which, according to the model, determine the form of the contract and which therefore have a direct effect on the governance structures established to facilitate its preparation and enforcement. In this context, relational contracting is examined in Section 2.5.4 as a potential response to contractual incompleteness. The importance of trust among contracting partners is also emphasised in this section before the chapter concludes with a reprise of the main arguments presented herein and a summary of the model of policy implementation as incomplete contracting. It is to the model's general background in economic neo-institutionalism that this chapter now turns.

2.5.1 *Economic Neo-Institutionalism: The Significance of Governance Structures*

The growing strength of the institutionalist paradigm in recent decades is a widely recognised phenomenon. As Jan-Erik Lane notes, however, 'the new institutionalism comes in two very different versions, the first one originating in organisation theory and the second one emerging within the new institutional economics' (1993: 166).[18] Although both the major interpretations within neo-institutionalism agree that 'institutions do matter', the sociological version views institutions as more than the simple sum of their parts (a holistic version), while the economic version views institutions as rational responses to individual interests and their aggregation into collective action (an atomistic version) (ibid.: 166-168). As suggested above, the economic version's contractual perspective on exchange relationships is particularly instructive in this context. The model of policy implementation as incomplete contracting therefore draws on a key approach in the field of *economic* neo-institutionalism.

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[18] Dowding (1994b: 107) attributes to March and Olsen (1984; 1989) the credit for introducing into political science the term 'new institutionalism'. March and Olsen suggest that the importance of social context or the motives of individual actors cannot be denied, but insist on a more autonomous role in theoretical political science for political institutions. Such institutions are more than just simple mirrors of social forces (1984: 739). While their version of new institutionalism is neither a theory nor a coherent critique of one, they conclude that 'the organization of political life makes a difference' (1984: 747; 1989: 1). Shepsle (1989) provides an account of the potential lessons of a neo-institutionalist approach influenced more by the discipline of economics, while Dowding (1994b) presents a particularly useful analysis of the compatibility of rational choice theory and new institutionalism.

Instead of treating institutions as given, the neo-institutionalist approach in economics attempts to endogenise what has traditionally been regarded as exogenous (Lane 1993: 176). In other words, neo-classical economics had tended to devote very little attention to institutions. Even the firm, as an institution which might have been expected to attract the attention of economists, was treated largely as 'a black box that produces optimal choices automatically as a function of any given environment' (Moe 1984: 740). However, in the last two decades or so, many economists have acknowledged the importance of institutional arrangements in economic processes: 'the study of economic institutions has witnessed a renaissance' (Williamson 1985: 15). The increasing concern of economists with institutions has been expertly documented and analysed for the purposes of political scientists by Moe (1984), while more recently, Furubotn and Richter (1993) have assessed progress in the field. The fundamental distinction in this literature is that between markets and hierarchical forms of organisation as different means of co-ordination. This well-known distinction is worth exploring briefly in order to clarify the concept of 'governance structures' utilised throughout this study.

The importance of *co-ordinating* a multiplicity of actors has long been recognised as a key economic task.[19] Scharpf points out that markets and hierarchies were long regarded as the two 'standard forms of institutionalized co-ordination': in other words, co-ordination among political, social and economic actors could be achieved through exchanges governed by pre-established prices in anonymous markets, or through the unilateral decisions of hierarchically superior authority (1993: 9). Markets and hierarchies are thus standard forms of governance structure. At this point, the precise meaning of this term can be provided. As Schneiberg and Hollingsworth convincingly suggest, 'governance' is a frequently-used concept, but little effort appears to be devoted to specifying just what it means:

> As a first approximation, we define economic governance as the set of practices whereby interdependent economic actors (producers, suppliers, distributors, labor, and state agencies) voluntarily coordinate and/or hierarchically control their activities and interactions ...

[19] Adam Smith's classic example of the pin factory is frequently used to illustrate the potential benefits of specialisation and co-operation, and the corresponding need for co-ordination: 'Smith described how in his time (the late eighteenth century) the various stages of pin manufacturing were carried out by different people, each of whom specialized in a single task - pulling the wire, straightening it, cutting it to appropriate lengths, sharpening the point, attaching the head, and packaging the finished product - and how the resulting volume of output was many times greater than it would have been if each person involved had done all the stages alone. The crucial point, however, is that such specialization requires co-ordination' (Milgrom & Roberts 1992: 25). Should such co-ordination be provided through the market, or by integrating all these tasks within a single, hierarchical organisation? Similarly, in the case of EC regional development policy, the partnership principle implies recognition of the fact that the numerous actors performing economic development tasks in the regional economy require co-ordination to avoid duplication of effort and to realise the benefits of co-operation.

> 'Governance structures' are the institutional devices through which economic actors organize these practices and manage inter-organizational relations. The study of governance represents an attempt to understand the motives, dynamics, and conditions that lead to the 'choice' of a particular governance structure from a range of possible institutional forms (1991: 201).

Amongst economists, the market has generally been viewed as the most efficient of governance structures, its perceived advantage being that the economic activities of widely dispersed people (entirely unaware of each other's existence) could be co-ordinated, with price serving as the key mechanism in the co-ordination. However, as Milgrom and Roberts have recently reminded us, if markets can perform so well, why then do we so often see the price system supplanted, with economic activity organised within and among formal, hierarchical structures using explicit planning and directives? More simply, why are there firms? (1992: 28). These fundamental questions were first posed by Ronald Coase (1937; 1960), and form the starting-point of the transaction costs approach within economic neo-institutionalism. This approach helps us to recognise the nature and importance of contracting, and should now be introduced.

2.5.2 *Transaction Costs Analysis and the Contracting Approach*

In his path-breaking 1937 article, Coase questioned why the firm existed as an organisational form in the specialised exchange economy. Moe later paraphrased Coase's central problematic when he asked 'why do economic agents in real economic contexts tend to arrange themselves hierarchically and co-ordinate their decisions via central authority rather than relying upon voluntary exchange and the automatic co-ordination provided by the market?' (1984: 742). As Moe suggests, Coase's own answer - that hierarchy may often be more efficient than the market - is not surprising. However, the way in which Coase arrived at the answer was more important. He pointed out that 'real-world production processes of any complexity generally involve many transactions among owners of capital, labor, land, specialised knowledge, and other inputs' (ibid.: 742). Such transactions, usually exchanges of resources, involve costs. It is the relative cost associated with different institutional arrangements for carrying out transactions that bears the central explanatory weight of the transaction costs approach.

According to Coase, the costs of carrying out transactions - 'transaction costs' - differ according to the nature of the transaction and the way in which it is organised. Were all production to be carried out solely through market mechanisms, there would be two general sources of transactions costs. Firstly, an economic actor seeking involvement in the production process would incur the costs of gathering and evaluating information regarding prices relevant to each stage of the process. Secondly, costs would be incurred 'in preparing for, negotiating, and concluding separate contractual agreements for each transaction' involved in the process of production (Moe 1984: 742; Coase 1937). Following Coase's' analysis, the general tendency for rational actors is then to adopt the form of organisation that economises on transaction costs. Thus, transactions tend to occur in the market when doing so is most efficient, and are otherwise brought within the firm or some other form of organisation when doing so minimises the costs of carrying them out (Milgrom & Roberts 1992: 28). This basic idea forms the foundation of the transaction costs approach. In the words of Oliver Williamson, 'the transactions costs approach (to the economic institutions of capitalism) maintains that these institutions have the main purpose and effect of economizing on transaction costs' (quoted in Lane 1993: 177).[20]

The precise nature and origin of transaction costs was not fully addressed in Coase's original framework. He simply noted that transaction costs are incurred in order 'to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on' (Coase 1960: 15). Even at such a general level, however, the conceptual link with policy analysis is clear. As Majone suggests, 'a natural classification of transaction costs consistent with Coase's notion can be obtained from the different stages of the policy-making process: problem definition, agenda setting, policy formulation, implementation, evaluation. Different transaction costs arise at the different stages since neither the nature of the task nor the set of policy actors remain constant throughout the process' (1994: 5).[21] As suggested in Section 2.2 above, contemporary policy-making involves a variety of non-state actors in each of these tasks. Ongoing exchange relationships are therefore

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[20] It should be noted that Williamson acknowledges that there can be no absolute measure of transaction costs. Hence, 'it is the difference between rather than the absolute magnitude of transaction costs that matters' (1985: 22). Different costs are involved when economic activity is organised within markets and hierarchies: 'whereas market transactions involve exchange between autonomous economic entities ... hierarchical transactions are ones for which a single administrative entity spans both sides of the transaction (and) some form of subordination prevails' (Williamson 1975: xi). Williamson's work therefore focuses on the costs associated with completing transactions under different organisational arrangements (1975; 1985; 1993).

[21] Twight applies transaction costs analysis to the wider political context of general forms of co-ordinated action, and concludes that 'transaction costs often determine political outcomes. To define them is to understand their pivotal role, for in a political context transaction costs denote most of the costs of multi-person political 'exchange' - more precisely, the costs of reaching and enforcing political agreements regarding the role and scope of government. Political transaction costs thus include information costs, organization costs, agency costs and other costs that exist in a political situation because of the fact that individuals strive to act collectively (1994: 190).

established within the policy area. What is the nature of the governance structures which best facilitate the exchange?

It has been suggested until now that exchanges (both economic and political) involve a variety of costs, and that these costs influence the governance structures facilitating that exchange. This is a simple but potentially useful idea. But what is the precise nature of such costs? Given Coase's failure to address this question more fully, much of the research in the economics of organisations has been devoted to giving substance and content to the basic idea of transaction costs. Where exactly do they come from, and what is their nature? The work of Oliver Williamson (1985), and later that of Paul Milgrom and John Roberts, seeks to answer this question. For the purposes of this study, Milgrom and Roberts' assertion that transaction costs are best summarised as the costs of co-ordination and motivation is particularly useful (1992: 29). This assertion is of tremendous relevance both to the preceding analysis of top-down and bottom-up approaches to policy implementation, and to the model of incomplete contracting, and therefore warrants careful attention.

Milgrom and Roberts suggest that the main tasks of economic organisation are essentially twofold: to co-ordinate the actions of various, dispersed, individual actors so that they form a coherent plan, and to motivate the actors in accordance with the plan (1992: 49). However, a key problem in achieving effective co-ordination is that the information needed to determine the best uses of resources is not freely available to everyone: information is highly localised and dispersed. The costs associated with co-ordination are therefore those of planning and bargaining in order to decide what should be done. There are two potential responses to the requirement to co-ordinate. Either transmit all the relevant information to a vast central computer or planner;[22] or adopt a more decentralised system that involves less information transmission and, therefore leaves at least some of the calculations and decisions about economic activity to those with whom the relevant information resides (ibid.: 26). According to Milgrom and Roberts, most forms of economic organisation involve some degree of decentralisation and hence discretion is widespread. Motivation costs, such as the costs of measuring performance, providing incentives and enforcing the plan therefore become significant. The link here with implementation analysis, where decisions require the involvement of actors from a number of organisations but are not self-executing, is obvious.

Recalling the dichotomy between top-down and bottom-up approaches to policy implementation, the top-down emphasis on co-ordination and the bottom-up

[22] The apparent absurdity of this suggestion similarly lies at the heart of Hjern and Porter's 'Lonely Organisation Syndrome' (1993: 249) considered in the preceding analysis.

emphasis on motivation should be re-considered in light of the fact that both tasks are central to any form of organisation:

> Motivation questions arise because individuals have their own private interests, which are rarely perfectly aligned with the interests of other individuals, with the groups to which the individuals belong, or with society as a whole. The co-ordination problem is to determine what things should be done, how they should be accomplished, and who should do what. At the organizational level, the problem is also to determine who makes decisions and with what information, and how to arrange communications systems to ensure that the needed information is available. The motivation problem is to ensure that the various individuals involved in these processes willingly do their parts in the whole undertaking, both reporting information accurately to allow the right plan to be devised and acting as they are supposed to act to carry out the plan (Milgrom & Roberts 1992: 126).

In other words, according to economic organisation theory the tasks of co-ordination and motivation are not separable. Co-ordination without motivation leads to top-heavy forms of organisation and inefficiency due to the scarce feedback of required information. Motivation without co-ordination leads to unfocused forms of organisation, and inefficiency due to the failure to exploit the benefits of specialisation and co-ordinated action. In terms of the policy implementation debate, the top-down versus bottom-up dichotomy can therefore be seen as a false dichotomy. What is required is a framework that addresses the importance of both (ex-ante) co-ordination and (ex-post) motivation.

The simultaneous importance of co-ordination and motivation is most clearly expressed in the focus on *contracting*, which forms a central plank of economic new institutionalism and the transaction costs approach. As explained in the introductory chapter, this body of literature suggests that exchange relationships (in their economic, political, or 'territorial political' forms) are invariably governed by a contract. Given the wide range of possible exchange relationships, Hart and Holmström point out that 'contract' is a flexible concept:

> Any trade - as a quid pro quo - must be mediated by some form of contract, whether it be explicit or implicit ... In recent years, economists have become much more interested in long-term relationships where a considerable amount of time may elapse between the quid and the quo. In these circumstances, a contract becomes an essential part of the trading relationship (1987: 71).

It has already been suggested that contracts do not require formal, legal status to be considered as such. Rather, economic neo-institutionalism simply suggests that the agreement to exchanges resources can be conceptualised as a contract. Governance structures (whether markets, hierarchies, or anything between) can thus be conceptualised as different contractual responses to the problem of economic organisation, that is to the tasks of co-ordination and motivation.

According to the contracting approach to economic organisation, contracts facilitate the task of co-ordination. Actors enter into contractual relationships in order to benefit from their exchange. Moreover, if it were possible to draw up a perfectly *complete contract*, the task of motivation would likewise be accomplished.[23] Motivation is only a problem because partners to a contract usually have their own private interests and these are not always aligned with the interests of other partners to the contract. This misalignment of interests is a recognised phenomenon in the bottom-up approach to implementation and explains why partners to a contract do not always act as they are supposed to do in order to meet the terms of the contract. However, were it possible to detail a complete contract in advance, this would specify what every partner is supposed to do under every possible circumstance. Enforcement would become a matter of simple monitoring.

As suggested in the introductory chapter, however, complete contracts are impossible to prepare under real world conditions where actors are boundedly rational and behave opportunistically. Bearing in mind these assumptions on human behaviour, the above discussion of transaction costs can usefully be applied to the phenomenon of contracting. The costs associated with any form of contractual arrangement can be very high. Hart and Holmström list the following four headings under which the costs of contracting are significant:

(i) the cost to each party of anticipating the various eventualities that may occur during the life of the relationship;
(ii) the cost of deciding, and reaching an agreement about, how to deal with such eventualities;

[23] One line of research on contracts has been the prominent area of work on 'principal-agent' theory. 'The principal-agent literature is concerned with how one individual, the principal (say an employer), can design a compensation system (a contract) which motivates another individual, (his agent say the employee), to act in the principal's interests ... Since, in general, the pay-offs to the agent will differ from those to the principal, the agent will not in general take the action which the principal would like him to take, or that they would contract for in the presence of perfect information... The principal-agent problem is, then, the central problem of economic incentives' (Stiglitz 1987: 966-967). Hart and Holmström suggest that 'agency relationships are ubiquitous in economic life. Wherever there are gains to specialization there is likely to arise a relationship in which agents act on behalf of a principal, because of comparative advantage' (1987: 75).This theoretical contribution has been widely adopted in political science. For example, see Braun (1993) for an application of the principal-agent concept to the field of science policy, where the author argues that the importance of third parties (client groups) is often neglected in principal-agent theory.

(iii) the cost of writing a contract in a sufficiently clear and unambiguous way that the terms of the contract can be enforced; and,
(iv) the legal cost of enforcement (1987: 132).

Such costs are vital in all long-term contracts, and their existence means that contractual agreements are usually only incomplete. Even in short-term contracts, however, these costs will all be significant, although those coming under headings (i) and (iii) will be significantly reduced since the future is relatively more predictable.[24] Due to the presence of such transaction costs, which are greater in long-term contracts, 'the contracts people write will be incomplete in important respects. The parties will quite rationally leave out many contingencies, taking the point of view that it is better to wait and see what happens than try to cover a large number of unlikely eventualities. Less rationally, the parties will leave other contingencies that they simply do not anticipate. Instead of writing very long-term contracts the parties will write limited-term contracts, with the intention of re-negotiating these when they come to an end' (Hart & Holmström 1987: 132). In real world situations, such incomplete contracts are far more common than complete contracts. It is to the common phenomenon of incomplete contracting that this chapter now turns.

2.5.3 *The Nature of the Incomplete Contract*

> Transaction costs of ex-ante and ex-post types are usefully distinguished. The first are the costs of drafting, negotiating, and safeguarding an agreement. This can be done with a great deal of care, in which case a complex document is drafted in which numerous contingencies are recognized, and appropriate adaptations by the parties are stipulated and agreed to in advance. Or the document can be very incomplete, the gaps to be filled in by the parties as the contingencies arise. Rather, therefore, than contemplate all conceivable bridge crossings in advance, which is a very ambitious undertaking, only actual bridge-crossing choices are addressed as events unfold (Williamson 1985: 20).

'We'll cross that bridge when we come to it' is a common maxim in day-to-day usage in the English language. In many ways, it captures succinctly the logic of incomplete contracting. Even in everyday situations, the time and effort required to plan ahead prohibits detailed agreements on what to do under every possible circumstance. 'We'll cross that bridge when we come to it' testifies to the bounded

[24] Hart and Holmström add that 'it is also worth emphasising that, when we talk about the cost of a long-term contract, we are presumably referring to the cost of a "good" long-term contract. There is rarely significant cost or difficulty in writing some long-term contract' (1987: 132).

rationality of individuals in the face of uncertain conditions. The maxim also suggests that 'bridges will be crossed' only *if* necessary. It makes little sense to try to anticipate all possible contingencies, as the likelihood is that many will never arise. In the words of Williamson quoted above, 'only actual bridge-crossing choices are addressed as events unfold'. Initial agreements to co-ordinate actions are therefore incomplete in key respects. This is the essence of incomplete contracting.

Hart and Holmström have provided a useful review of the emerging ideas on incomplete contracting in the discipline of economics. They point out that to date, the vast majority of theoretical work on contracts has been concerned with complete contracts. However, the realisation that it is 'usually impossible to lay down each party's obligations completely and unambiguously in advance' has focused attention on the extent to which actual contracts are incomplete in key respects. This 'incompleteness raises new and difficult questions about how the behaviour of the contracting parties is determined' (1987: 148). The authors add that, unfortunately incomplete contracts represent a more recent methodological trend in contract research, and as such their discussion 'has not advanced very far yet' and is 'correspondingly more tentative in nature' (ibid.: 73). Nevertheless, the incomplete contracting approach is more than just a new descriptive tool. It provides some key insights on how the dimensions of an exchange relationship shape the nature of the incomplete contract and hence the governance structures established to facilitate that exchange.

A key concept in the model of incomplete contracting is that of bounded rationality, as examined in chapter 1. At this stage, it is worth re-emphasising what would be involved in reaching and enacting a complete contract, and why bounded rationality makes this unlikely. Milgrom and Roberts (1992), echoing Hart and Holmström (1987), provide a useful summary of the key requirements of contractual completeness. Firstly, the parties to a contract must each foresee all the relevant contingencies that might be important to them in the course of the contract and to which they might want to make adaptations. Moreover, 'they must be able to describe these contingencies accurately so that they can unambiguously determine before the fact just what possibilities are being discussed. They must also be able to know after the fact which of the particular circumstances they considered beforehand has now actually occurred' (Milgrom & Roberts 1992: 127). Secondly, 'they must be willing and able to determine and agree upon an efficient course of action for each possible contingency' (ibid.: 127). Bounded rationality means that both these requirements are highly unlikely to be met. Thirdly, 'once they have entered the contract, they must be happy to abide by its terms'. This third requirement of complete contracting has two main elements: 'the parties must not mutually desire to re-negotiate the contract later', otherwise, 'the anticipation that they will re-negotiate may deprive the original agreement of its credibility and may prevent it from guiding behavior as it should'; and, 'each party must be able to determine freely whether the contract's terms are being met, and, if they are being violated, each must be willing to enforce the agreed performance' (ibid.: 127). In other words, the perfectly fashioned complete contract would require hyper-rationality.

In short, the bounded rationality of real actors means that not all possible 'bridge-crossings' can be detailed in advance. In complex exchange relationships, it is inevitable that contingencies will arise that have not been planned for. When this occurs, partners to the exchange must find ways to adapt. Under such circumstances, it is not just bounded rationality but also the opportunistic behaviour of actors that renders contracts incomplete. The inevitability of adaptations to the contract means that opportunistic behaviour is a possibility, and hence the task of motivation becomes that of reducing the likelihood of such behaviour. In agreeing to co-ordinate their action, actors must therefore recognise that 'what can actually be accomplished is constrained by individuals' self-interested behavior and then designing the most efficient plans that recognise these *incentive constraints* [emphasis in original]' (Milgrom & Roberts 1992: 129). There is an obvious link here with Elmore's prescriptive strategy for policy implementation known as 'backward mapping' (1979). He suggests that if the motivations of lower-level actors were incorporated into policy design, then policy would be more likely to be implemented successfully. However, while Elmore emphasised the importance of recognising 'incentive constraints' at the policy formulation stage, he did not devote the same attention to the importance of co-ordination and the relevance of central objectives.

The model of incomplete contracting is particularly appropriate for understanding the process of policy implementation. Majone points out that an agreed set of constraints, both objective and self-imposed ones, constitute the rules of the 'policy game'. However, 'the rules are never completely known when the game starts. This is because at the time a policy is initiated it is impossible to know all the relevant limiting factors, and it is often difficult even to tell beforehand which of the assumed constraints will actually be binding. As the policy moves from decision to implementation, previously hidden constraints will emerge, forcing more or less radical changes. This iterative process of discovering constraints and modifying goals or strategies accordingly is the essence of policy implementation' (1993c: 14). In other words, the uncertainty surrounding the implementation process, combined with the bounded rationality of policy-makers, suggests that policy may be usefully viewed as an incomplete contract. Bargaining (in the form of the exchange of resources) continues throughout the process and is not restricted to either the ex-ante phase of agreeing a policy decision, or the ex-post phase of executing that decision.

To summarise the argument so far, the potential utility of the incomplete contracting model as a tool with which to approach the study of policy implementation has been demonstrated. The contracting approach provides an elegant means by which to link the concerns of co-ordination and programming on the one hand, with those of motivation and adaptation on the other. Recalling the assumptions of bounded rationality and opportunism, it has been suggested that the costs of co-ordination and motivation render real-world contracts incomplete in key respects. This incompleteness means that the exchange of resources continues in both the co-ordination and motivation phases of co-ordinated action. However, what are the specific features of the exchange between actors that are relevant to implementation analysis? In conceptual terms, what are the features of this model which allow us to move beyond description to explain the way in which the exchange is organised and hence to understand the nature of governance structures under an implementation setting?

To answer these questions, the model again focuses at the level of the exchange. The way in which an exchange relationship is best organised reflects three key dimensions of the exchange. The three key dimensions central to the analytical model of policy implementation as incomplete contracting are as follows:

(i) The *asset specificity* of the resources exchanged by each participant;
(ii) The level of *complexity and uncertainty* concerning what performance is required;
(iii) The *frequency* of exchange and the *duration* of the exchange relationship.

Drawn from Williamson (1985: 52-63) and Milgrom and Roberts (1992: 30-33), these dimensions of the exchange should be examined in turn.

(i) *Asset Specificity* The key dimension of exchange highlighted by the model of incomplete contracting is the extent to which the resources brought to an exchange by individual participants are specific to that exchange. Williamson suggests that this is the most critical dimension of any exchange (1985: 30). What is the nature of the investment that an actor must make, and can this investment be employed elsewhere? The answer to this question reveals the extent to which actors are locked into exchange relationships and goes some way to explaining how the relationship is organised.

The significance of asset specificity is best illustrated by example. When an individual goes to a shop in a large city to buy a loaf of bread, the asset specificity of the resources brought to the exchange is close to zero. That individual can take his/her money elsewhere to buy the bread, while the shopkeeper presumably has a large number of customers. This simple 'spot contract', where goods (or services) are exchanged 'on the spot' (Milgrom & Roberts 1992: 131), can be contrasted with more complex exchanges. Hart uses the example of transactions between electricity generating plants and mine-mouth coal suppliers (1987: 753). The nature of the investments made in this latter example are much more asset specific. When the coal mine is at the mercy of a single user, the investments made by the owners of the coal mine lose their value if the buyer moves away. The model suggests that the vulnerability of the investment will be reflected in the contractual arrangements governing the exchange relationship. In short, the less specific the nature of the investment, then the less crucial the transaction. The model of incomplete contracting therefore suggests that different governance structures will reflect varying levels of asset specificity.

Williamson explains that there are different types of asset specificity and that these relate to the nature of the assets invested in an exchange. Human assets (such as experience or expertise), physical assets (such as buildings) or locational assets (such as access to localised information) may all be more or less specific to a given exchange relationship. The lesser the ability to deploy such resources elsewhere, then the greater the likelihood that the actor exchanging the resource will seek a contractual arrangement that guarantees some stability and hence a return to its investment. The model of policy implementation as incomplete contracting therefore stresses that the importance of asset specificity should be recognised. When a participant in an exchange makes a large, specific investment, it will seek to safeguard that investment. Crucially then, the specific identity of the participants in the exchange is important (Williamson 1985: 55-56). In other words, *the continuity of the relationship is valued and participants will not want to jeopardise the exchange.* This essential point is re-iterated below in the discussion of the importance of trust, but at this stage the explication proceeds by turning to the second key dimension of the exchange.

(ii) *Complexity/Uncertainty* As suggested above in the discussion of contractual incompleteness, the complexity of designing agreements, combined with the uncertainty about the conditions that will prevail when the agreement is being executed, mean that it is extremely difficult to establish from the outset how each participant should react under every contingency. A clear link can be drawn here with the policy implementation literature. As O'Toole explains, uncertainty is often a feature of multi-organisational implementation. The actors participating in such arenas face 'substantial, potentially devastating, uncertainty from numerous sources', for example, lack of knowledge of other participants' policy preferences, the number of actors involved in the implementation setting, the structure of dependence among the actors, and the difficulty of monitoring and enforcement in such settings (1993: 40-42). To this list may be added the fallibility of the causal theory underlying policy choices: taking the example of regional policy, should expenditure for development be directed towards infrastructure software or infrastructure hardware? Moreover, over the course of a multi-annual programme, the policy environment may be altered. Rather than attempting to address this complexity and uncertainty at the outset, the model of policy implementation as incomplete contracting suggests that participants will simply agree the means by which to respond to contingencies if and when they emerge. The nature of this agreement to 'cross that bridge when we come to it', is more relevant than the detailed ex-ante specification of individual performance and monitoring of that performance. This aspect of the model teaches us to look for instances of *relational contracting*, a concept considered below after the third key dimension of the exchange has been introduced.

(iii) *Frequency/Duration* The importance of the frequency of exchange and duration of the exchange relationship were hinted at in the example of a 'spot contract' presented above. Frequency and duration of exchange are practically zero under spot contracts. Williamson gives the example of 'purchasing local spirits from a shopkeeper in a remote area of a foreign country one expects never again to visit or refer to his friends' (1985: 72). The point to note is that very few exchanges have such a totally isolated character. As exchanges occur more frequently over a longer duration, the more likely it is that some specialised contractual arrangement will be devised to facilitate the exchange. This may take the form of a legally enforceable contract, or it may simply take the form of shared trust. The model emphasises that participants engaged in exchange relationships of long duration who interact frequently, *and for whom the continuity of the relationship itself is valued*, will seek to reduce the need for costly contracting arrangements.

Together, questions of asset specificity, complexity/uncertainty, and frequency/duration highlight the key dimensions of the exchange. The model of policy implementation as incomplete contracting illuminates these dimensions in order to explain the nature of the exchange relationships created in the context of policy implementation. Before providing a concise summary of the model and its potential utility, two further aspects should be introduced briefly: the strategy of relational contracting as a response to contractual incompleteness; and, the pivotal role played by the creation and nurturing of a sense of trust between participants in a process of incomplete contracting.

2.5.4 *Relational Contracting and the Importance of Trust*

This short sub-section concludes the presentation of the model of policy implementation as incomplete contracting by pointing to three further aspects of the model which possess notable explanatory strength. These are as follows: the widespread phenomenon of relational contracting as a response to contractual incompleteness; the importance of trust and shared beliefs under incomplete contracts; and, the likelihood that some third party, or 'special purpose institution', will be established to facilitate exchanges under contractual incompleteness. The way in which the European Commission is able to shape these aspects goes a long way to determining its role in fashioning the governance of the contractual agreement. These useful concepts should be examined in turn to complete the model of policy implementation as incomplete contracting.

Firstly, we may ask the question 'what sort of contractual arrangements are designed in response to incomplete contracts'? Milgrom and Roberts suggest that actors recognise their own bounded rationality and often simply structure the best contracts they can. Of particular relevance for the study of policy implementation is the relational contract, 'which does not attempt the impossible task of complete contracting but instead settles for an agreement that frames the relationship. The parties do not agree on detailed plans of action but on goals and objectives, on general provisions that are broadly applicable, on the criteria to be used in deciding what to do when unforeseen contingencies arise, on who has what power to act and the bounds limiting the range of actions that can be taken, and on dispute resolution mechanisms to be used if disagreements do occur' (Milgrom & Roberts 1992: 131). This is the clearest recognition so far of the fact that it is impossible to concentrate all the relevant bargaining at the ex-ante co-ordination phase. In terms of the policy implementation literature, it confirms the bottom-up suggestion that bargaining cannot be limited to the initial stages of policy-making such as problem definition, agenda-setting and policy formulation. Actors recognise this fact at the outset and, *de facto*, realise that the solution of a complete contract is too costly and simply impossible in practical terms. Participants therefore agree on processes, procedures, and who makes decisions when unanticipated events occur, but they do not agree on detailed actions. This process of relational contracting serves 'to structure a relationship and set common expectations' that facilitate decision-making in the execution phase (Milgrom & Roberts 1992: 132; Williamson 1985: 71-72).

The second aspect of the model that should be noted at this stage, the importance of trust, is closely related to that of relational contracting. Oliver Williamson's entire approach to the study of contracting was in direct contrast to the legal centralism of what he termed the 'mechanism design' literature. This literature, mirroring key ideas in the top-down approach to policy implementation, focused on the ex-ante phase of contracting (incentive alignment) and assumed that any ex-post disputes could simply be referred to courts (Williamson 1985: xii). This reliance on legal remedies fails to recognise a key feature of contracting: when actors in an exchange relationship have invested large, specific resources, there is a pressure to sustain ongoing relations. Recourse to legal remedies in the event of disputes would endanger the very relationship which participants seek to preserve. Under circumstances of contractual incompleteness, trust and 'shared beliefs about the spirit of the agreement are essential to the maintenance of co-operation' (Majone 1993c: 15). As Mutti has suggested, the existence of trust means that it is often 'unnecessary to resort to excessive formalization and detailed specification of the rules of the exchange', and 'therefore makes the entire process of political exchange potentially more elastic, dynamic and wider' (1990: 210). Trust is particularly useful in facilitating co-operation and reducing the costs of transaction, and the model of policy implementation as incomplete contracting developed herein therefore proposes that analysis should focus on the extent to which it emerges.

Finally, it should be noted that the model of incomplete contracting points to the likelihood of the emergence of 'third parties', not directly involved in the exchange relationship at the outset, to facilitate co-operation and reduce transaction costs. In the wider literature of economic neo-institutionalism, North has noted the general tendency of parties to a contract extending over time to leave to a third party the resolution of disputes that may arise during the course of that contract, given the costliness of trying to anticipate ex-ante the course of action to be adopted in every eventuality (1990: 52). Milgrom and Roberts likewise emphasise that 'special purpose institutions' can be tailored to the particular circumstances of the exchange relationship. 'Generally, when similar transactions occur frequently over a long period of time involving some of the same parties, the one who interacts repeatedly may find it valuable to design and introduce low-cost routines to manage the transaction' (1992: 31). The role of special purpose institutions is a particularly useful aspect of the model of policy implementation as incomplete contracting. As shown in the case study of ERDF implementation in Western Scotland, it is one aspect of the model which helps to account for the emergence and development of 'independent' executive bodies in complex exchange relationships.

At this stage, the outline of the model of policy implementation as incomplete contracting has been presented fully, and in some depth. The final section of this chapter recaps the background of the model and summarises its specific features, before subsequent chapters examine the extent to which the case study of ERDF implementation in Western Scotland confirms the accuracy and utility of the model.

2.6 Reprise and Summary

This chapter has presented a comprehensive literature review in order to set out the theoretical background of the study. Most importantly, it has elaborated the model of policy implementation as incomplete contracting. As explained in the introductory chapter, the 'goodness of fit' of this model, to borrow a term from statistics, will be 'tested' in the case study of Western Scotland presented below. However, the introductory chapter also cautioned that models cannot be expected to highlight *all* the relevant features of a given situation. As Rhodes points out, 'models in the social sciences are never wholly satisfactory. They are more or less useful' (1980: 312). The incomplete contracting model does not seek to uncover and explain all the factors relevant to policy implementation, but it is suggested herein that the model is a useful contribution to the study of policy implementation. Before summarising the key features of this model, a short reprise of the essential concepts and arguments introduced in this chapter should be provided.

Section 2.2 began by illustrating the complexity of contemporary governance structures, emphasising the dependence of the European Commission on external actors for policy relevant information and expertise. In addition, the European Commission is a relatively small organisation and must rely on external actors for the implementation of EC policies. The dependence of the European Commission on external actors is recognised in the growing literature on lobbying at the EC level, and in that on regulation, but implementation research has generally failed to address the significance of such factors for the execution of EC policies. At the same time, however, external actors are often dependent on the European Commission for financial resources, policy decisions and guidance as to how to meet Commission requirements. Such *interdependence*, involving territorial as well as functional interests, is best summed up for the purposes of this study in Parri's conceptualisation of 'territorial political exchange' (1989; 1990). *This exchange-based conceptualisation of power provides the starting point for the model developed later in the chapter.*

The relevance of the territorial political exchange concept to the specific case of the implementation of ERDF actions was also noted in Section 2.2. It was suggested that information lies at the heart of the relationship between sub-national actors and the European Commission, not least because of the small size of the latter. Local actors can mobilise resources such as expertise, field information and knowledge, in order that these may be exchanged with the European Commission in return for some input into the decision-making and implementation process. Recent innovations such as partnership and programming in the field of EC regional policy have provided access for the European Commission behind the outer-shell of the member states, and opened channels for information flow between DG XVI and actors in the regions themselves. Moreover, as sub-national actors present the lists of projects which DG XVI co-finances, they now expect to be involved in the negotiation of programmes.

As Hanf and O'Toole emphasise more generally, 'virtually any recent effort to understand how programmes operate' must therefore confront 'the multi-organizational character of action... There are very few social problems that can still be dealt with, let alone solved, within or by one or a few organizations working alone' (1992: 165). The significance of this widespread interdependence is best summed up in O'Toole's assertion, quoted above, that the notion of the 'omniscient, omnicompetent and omnipotent state' is now severely outdated (1993: 52). Nevertheless, as Goggin et al. point out, it would be wrong to assume that this necessarily implies that public actors can be caricatured as 'impotent, bumbling, and inept bureaucracy' (1990: 74). Public actors may find themselves in situations of interdependence, but they still seek to shape policy outputs in their desired directions. The policy implementation perspective was introduced in Section 2.3 to illustrate the many hurdles a policy decision must clear before intended output becomes output achieved.

Pressman and Wildavsky's classic study of implementation was highlighted to indicate the sheer difficulty of policy implementation. The authors emphasised that the 'complexity of joint action' as a result of the many 'clearance points' through which policy decisions must pass, as well as the fallibility of the causal theories upon which policies are based mean that there may be significant gaps between intended output and output achieved within a suitable time frame (1973). By the mid-1970s, any notion that policy implementation involved the straightforward execution of policy intent had been shattered. On the contrary, Bardach noted, extremely pessimistically, that 'even the most robust policy - one that is well designed to survive the implementation process - will go awry. The classic symptoms of underperformance, delay, and escalating costs are bound to appear' (1977: 5). An early wave of studies of implementation at that time became known as the top-down approach. Focusing on the importance of clear policy objectives, ex-ante bargaining, and the legal and political structuring of the implementation process to enhance compliance by implementers and target groups, this early approach was later criticised as overly rationalist and managerialist. Top-down studies focused on the task of co-ordinating actors in line with central objectives, neglecting the importance of opportunistic behaviour after policy decisions had been taken, and hence downplaying the significance of the motivations of lower level actors. This approach to the study of policy implementation was increasingly challenged.

Barrett and Fudge argued in the early 1980s that 'much of the existing literature tends to take a "managerial" perspective; the problems of implementation are defined in terms of co-ordination, control or obtaining "compliance" with policy. Such a policy-centred or "top-down" view of the process treats implementers as "agents" for policy-makers and tends to play down issues such as power relations, conflicting interests and value systems between individuals and agencies responsible for making policy and those responsible for taking action' (1981: 4). An alternative, bottom-up approach emerged out of such criticisms. Bottom-up approaches argued that bargaining cannot be concentrated in the ex-ante stage of reaching a policy decision (recognised in the recursive model of policy presented in the introductory chapter of this study). In short, the inevitability of discretion for 'street level bureaucrats' meant that the policy adoption/formulation phase could not be distinguished clearly from policy implementation. Bottom-up approaches therefore proposed a methodological innovation, shifting the level of analysis to the motivations of actors at the local level. How do such actors experience policy decisions 'at the coal-face', involved in the day-to-day sense in implementation structures (and policy networks)? Do these actors pursue primarily the rationale of the policy programme, or an organisational rationale?

As Thrasher and Dunkerley argue, the top-down approach concentrated overwhelmingly on formal, structural characteristics and was thus 'unable to grasp the interactions, motivations and attitudes of those actually involved in the implementation' (1982: 350). The bottom-up versus top-down dichotomy therefore reverberated with the themes of older debates in political science: rational analysis versus incrementalism and 'muddling through'; scientific management versus organisational development; and top-down compliance versus grass roots control (Berman 1980: 205-6). Section 2.4 noted the normative implications of much of this debate and sketched three attempts to move beyond the dichotomy. However, simply lengthening the time-frame of the analysis is not a particularly useful strategy (Sabatier 1986). In this case, attention shifts from the implementation of policy decisions *per se* - the relation between intended output and output achieved *within a suitable time frame* - to policy change over longer time periods. Despite these attempts, implementation research remains in need of a conceptual 'boost', to provide a means by which the legitimate concerns of both the top-down and bottom-up approaches can be integrated. O'Toole (1993) suggests that any conceptual advancement will be difficult to achieve given the uncertainty and complexity of contemporary implementation settings. The model developed herein incorporates these dimensions and seeks to build upon the main concerns of both the top-down and bottom-up approaches without resorting to a much extended time frame.

As noted above, the exchange-based conceptualisation of power provides the starting point for the model of policy implementation as incomplete contracting. The importance of exchange has long been recognised in the bottom-up approach where implementation has been viewed in terms of 'an exchange network of implementers', that is, 'individuals operating outside the boundaries of their own organisation in a process of resource exchange' (Thrasher 1983: 388). However, it should be emphasised that such exchanges do not simply take place at 'the street level' after a policy decision has been taken. Exchanges occur throughout both the policy adoption and policy execution phases. That is, bargaining cannot be concentrated in the ex-ante phase of preparing a policy decision (as top-down approaches imply), but nor can it be concentrated in the ex-post phase of executing that decision. Section 2.5 develops a model *focusing at the level of the exchange*, which recognises the importance of bargaining throughout both 'phases'.

Milgrom and Roberts observation regarding the main tasks of any form of economic (and by extension political) organisation should be repeated. They suggest that these tasks are essentially twofold: to co-ordinate the actions of various, dispersed, individual actors so that they form a coherent plan, and to motivate the actors in accordance with the plan (1992: 49). The literature of economic neo-institutionalism, and the transaction costs approach in particular, suggests that there are a number of costs associated with both these tasks. The key features of the transaction costs approach were outlined in Section 2.5.2. The feature of this approach most relevant to this study is the focus on the transaction (where goods or services are transferred from one person or organisation to another, usually by exchange) as the basic unit of analysis. Ronald Coase and Oliver Williamson have developed the approach to provide a 'refined and sophisticated theory of why, where, and when the "visible hand" of informal or formal-bureaucratic modes of governance supplement and/or replace the "invisible hand" of autonomous contracting and the market' (Schneiberg & Hollingsworth 1991: 200). Of less relevance to this study is the assertion that transaction cost economising is the central force driving changes in governance structures. In the case of political arrangements, this is clearly not appropriate as a series of contested objectives are regularly pursued through one policy: it is often the case that alternative governance structures could be arranged to reduce the costs of political transactions, but more expensive arrangements (in transaction cost terms) are maintained to provide a symbolic gloss to political action.

It is suggested in Section 2.5.2 that transaction cost analysis can provide fruitful lessons for policy analysts. In any situation of political exchange, including the territorial political exchange analysed in Section 2.2 above, the simple act of organising that exchange involves a variety of costs. Majone suggests that, by simplification, we can group all transaction costs under three broad categories: 'search and information costs, bargaining and decision costs, policing, enforcement and measurement costs' (1994: 6). In short, these are the costs of co-ordination and motivation. In terms of the policy implementation literature, exchange of resources across the stages of problem definition, agenda-setting, policy formulation and execution are costly to organise. In the language of economic neo-institutionalism, actors recognise their mutual interests and agree to modify their actions across these phases in ways that are mutually beneficial, distributing both the costs and the benefits between themselves. Such broad agreements are conceptualised as *contracts*.

It is at this point that the assumptions of bounded rationality and opportunism outlined in the introductory chapter play a significant role in the development of the model. As Williamson suggests, the 'main ramification of bounded rationality, for purposes of studying economic organisation, is that *all complex contracts are unavoidably incomplete*. Gaps, errors, omissions, etc. therefore appear in all complex contracts, especially those of a long term kind [emphasis in original]' (Williamson 1993: 110). Limited foresight, imprecise language, the costs of calculating responses, and the costs of writing down plans all mean that actors do not attempt the impossible task of preparing complete contracts. Rather, they prepare contracts which are incomplete in some key respects. Parties to the contract can thus exploit loopholes to gain an advantage over one another (Milgrom & Roberts 1992: 138). Hart suggests that the rudimentary state of knowledge in the area means that writing on contractual incompleteness is 'inevitably quite speculative in nature' (1987: 752). Nevertheless, the incomplete contracting model provides some key insights. The next stage in the development of the model is to outline the nature of the incomplete contract, that is the nature of the agreement between contracting partners.

Retaining the focus at the level of the exchange (ex-ante and ex-post), three key dimensions of the exchange shape the way in which that exchange is organised (i.e. the contract). Firstly, the greater the *asset specificity* of the resources invested by participants in the exchange relationship, the greater the likelihood that they will try to ensure the relationship is continued. In other words, the continuity of the contractual relationship is itself valued. Secondly, the level of *complexity* and *uncertainty* concerning what performance is required by each actor determines the extent to which monitoring arrangements are vital and the extent to which actors will leave gaps in the contract to be filled in as contingencies emerge. Thirdly, the greater the *frequency* of exchange and the longer the *duration* of the exchange relationship, then the more likely it is that specialised contractual arrangements will be devised. Analysis of these three dimensions provides an explanation of the way in which contractual responses are organised.

The final sub-section of this chapter points out three particularly relevant aspects of the contractual arrangement (i.e. the implementation structure) which the model highlights. Firstly, *relational contracting*, as a common response to incomplete contracting, was noted. This suggests that the initial agreement to co-ordinate actions does not specify each actor's required performance under all contingencies in advance; rather, a relational contract is an agreement to frame the broad relationship, setting out broad goals and objectives, and criteria on what to do when unforeseen contingencies arise. The second aspect highlighted, the importance of *trust*, is obviously closely related. Trust and shared beliefs about the nature of the agreement reduce the costs of contracting and mean that it is easier to 'leave some things to chance' rather than specifying in advance required actions. Finally, the model highlights the importance of *special purpose institutions*, designed specifically to facilitate exchanges. As these emerge and develop expertise in the detailed nature of the exchange, contracting becomes more effective. However, if any one partner in the exchange captures the special purpose institution, trust may be destroyed and contracting becomes costly. These then are the key insights provided by the model of policy implementation as incomplete contracting.

As suggested in the introductory chapter of this study, the model of incomplete contracting has already been used in a limited manner to consider the horizontal process of negotiation between Community member states in EC policy-making. Garrett explains the delegation of authority to the European court 'in terms of the monitoring and incomplete contracting problems confronting EC members' (1992: 557; Garrett & Weingast 1991). 'Conventional analyses of cooperation tend to assume both that members of a community will, ex ante, agree on an exhaustive set of rules to govern all their future interactions and that compliance with and transgressions of these rules will be transparent. Both assumptions, however, are often unwarranted' (ibid.: 557). In general terms, Garrett suggests that the EC legal system mitigates the incomplete contracting problems facing Community member states: 'it is always extremely costly, if not impossible, for actors to make exhaustive agreements that anticipate every dispute that may arise between them. Rather than attempting to do this, parties inevitably make agreements that only sketch the broad "rules of the game" and then delegate the authority to apply and adapt these rules to specific cases' (ibid.: 557). Garrett suggests that this is exactly what took place when the Council of Ministers sketched the broad outlines of the Single Market in the Single European

Act, but left a great deal of discretion in the interpretation of the Act to the European Court of Justice. The model of incomplete contracting is therefore not new in the context of approaches to the study of EC policy-making, but when applied to the analysis of policy implementation in the EC, it provides considerable insight.

The remainder of this study seeks to demonstrate the applicability and utility of the model, by presenting an in-depth study of the implementation of ERDF actions. Chapters 3 and 4 present an analysis of the ERDF (in the context of contemporary theories) as it emerged and evolved at the European level between the early 1970s and the late 1980s. The ability of the European Commission to involve sub-national actors directly in exchange relationships in this policy field, and the nature of the exchanges taking place in this period, is a key focus of these chapters. Chapters 5, 6 and 7 then turn to the regional level and present a case study of the exchange there through a focus on the dimensions of asset specificity, complexity/uncertainty and frequency/duration. The light shed on the process of relational contracting, the emergence of trust, and the development of a special purpose institution there confirms the utility of the model of policy implementation as incomplete contracting. It is to the nature of early exchanges in the field of EC regional policy, which have strongly conditioned later developments, that the study now turns.

Chapter 3. The Historical Development of the ERDF to 1988 in the Context of General Theories of EC Policy-Making and Implementation

3.1 Introduction

This chapter examines the history and evolution of the European Regional Development Fund in the period until 1988 in the wider context of general theories of European Community policy-making and implementation. More specifically, it analyses the European Commission's ability to shape the operation of the Fund according to its own priorities: *to what extent did the original Fund Regulation, and its successive amendments, provide the European Commission with the tools to fashion regional economic development contracts with actors in the Community's disadvantaged regions?* In other words, to what extent did early legal provisions enable the European Commission to engage with national and sub-national actors in a relationship of territorial political exchange in the field of Community regional policy? What was the nature of the governance structures established in this period to facilitate the disbursement of funds? In answering these questions, the chapter provides an analysis of the development of the ERDF that is essential for an understanding of the case study of Western Scotland presented in subsequent chapters.

The main contention of the analysis presented in this chapter is that the historical instant in which the ERDF was set up, and the functions it was expected to serve at that time, have conditioned the evolution of the Fund as a policy instrument. As Cawson forcefully argues, the 'logic' of any policy (or its *raison d'être*) can only be understood by examining in detail its historical development (1992). In itself, this may seem a mundane, and in many ways self-evident, statement. However, when the ambiguity of the original objectives of the ERDF are borne in mind, the contention becomes more challenging.

The ambiguity surrounding the creation of the ERDF has been summarised most clearly by Buck, who suggested that the Fund had 'the capacity to fill two roles:

(i) the promotion of regional development, and/or
(ii) the provision of a channel for rebates to certain Member States for contributions
to the EEC's budget considered to be excessive' (1982: 25-26).

For the purposes of conceptual clarity and brevity, these will hereafter be termed the *development function* and the *compensatory function* of the ERDF. The key to understanding the evolution of the Fund is that its 'real' objectives have always been highly contested: whether the ERDF has been expected to fulfil primarily a development or a compensatory function has been a source of conflict between the European Commission and member state governments since its creation.

Superficially, it may seem obvious that the Fund is designed to correct regional imbalances. Giving evidence to the House of Lords Select Committee on the European Communities, however, Buck has also suggested that it is a 'heroic assumption' to take it for given that 'the Fund *is* intended to influence the regional allocation of resources in Europe' (1981: 30). His subsequent adoption of the 'and/or' conjunction (quoted above) is more instructive, as it draws attention to the possible existence of a 'garbage can' scenario (Cohen, March & Olsen 1972; 1976) in the case of the ERDF.[1] In other words, a highly ambiguous policy environment may be created by the meshing together of different issues and objectives. This is an accurate description of the ERDF, which has been expected to fulfil *both* a development function and a compensatory function since its creation, although different participants in the Community regional policy process have attached different weight to each of these potential functions. In addition, the balance of importance has shifted over time from the purely compensatory function to a greater acceptance of the development function of the Fund. It should also be noted that, even if central governments in recipient member states have generally viewed the ERDF as a 'channel for rebates', and have therefore sought to maximise receipts while minimising the necessary administrative effort and hence the transaction costs of doing so, the symbolic importance of the Fund in regional development terms is an additional benefit.

As well as illustrating the tension between the Fund's potential development and compensatory functions, the chapter suggests that the operational directorates of Directorate-General XVI (Regional Policies) of the European Commission have consistently sought to re-direct the ERDF from a naked channel for rebates to the positive purposes of regional development. Although DG XVI has actively and consistently sought to increase the involvement of regional and local actors in the formulation and implementation of regional development programmes, the operational directorates with responsibility for promoting and overseeing such programmes are primarily interested in regional economic planning. The mobilisation of regional actors with a view to restructuring the territorial distribution of power within the member states is not a central

[1] The 'garbage can model' developed by Cohen, March and Olsen rejects the characterisation of the policy process as a series of neatly self-contained issues, each with its own rationally determined solution, in favour of a more descriptively realistic account highlighting the chaotic elements often found in policy-making arenas (Lane 1993: 56). The model attempts to understand problem-solving and conflict resolution under conditions of ambiguity, that is, where objectives are unclear, means are imperfectly understood, and actors appear and disappear from the stage (Cohen, March & Olsen 1976: 26).

objective of DG XVI. The powers and involvement of regional actors are therefore of interest to DG XVI only to the extent that these affect the delivery of European-funded regional development programmes.

This historical analysis also presents empirical information on two technical aspects of the ERDF that are particularly relevant in the subsequent case study of Western Scotland, and which should therefore be highlighted at the outset. These technical aspects are 'additionality' and 'software' measures. It will be shown below that these are linked and that, in the UK, both are directly relevant to the extent to which central government there has been able to treat the ERDF simply as a compensatory mechanism to the benefit of the Treasury. These technical aspects are considered in the context of a wider examination of the evolution of the Fund.

Section 3.3 presents an analysis of the chronological stages in the evolution of the ERDF. From the emergence of the Fund, through the 1979 amendments and the Commission proposals for reform in the early 1980s, to the 1988 Regulations, the tension between the potential functions of the ERDF as primarily a tool for regional development or as a simple channel for rebates has been apparent. The Structural Fund reforms of 1988 are commonly viewed as the point at which the balance of importance swung further to the development function of the ERDF than at any other time in its history. In a general period of expansion of the competencies of the EC, the financial resources devoted to the Funds were not only doubled but the rules governing their operation were re-written according to a common overall philosophy embodying a set of Community 'principles'.[2] The principles upon which the 1988 reforms were based were primarily fourfold:

(i) *Concentration*: the principle that the allocation of the Structural Funds and loan instruments of the European Community should be concentrated in favour of the most disadvantaged regions, focusing the development effort in those priority regions experiencing the greatest difficulties;

(ii) *Programming*: the principle that assistance should be disbursed and managed through multi-annual programmes for eligible regions, rather than an individual project-based system;

(iii) *Partnership*: the principle that the European Commission, the member state government concerned, and competent authorities at the national and regional

[2] See the European Commission's own *Guide to the Reform of the Community's Structural Funds* (1989), or Mellors and Copperthwaite (1990: 56-58) for a summary of these principles.

level should consult as a partnership in the preparation, financing, monitoring and assessment of programmes, all in the pursuit of a common goal;

(iv) *Additionality*: the principle that European grants should be additional to (and not a substitute for) national assistance to target regions.

Other principles were also central to the reforms. For example, *co-ordination* and *monitoring and assessment* of actions were both of importance. The former refers to the principle that the respective Structural Funds should complement each other by focusing jointly on priority objectives, and that these should be consistent with member states' economic policies. The latter refers to the principle that a rigorous approach to the administration of the funds should lead to improved utilisation of resources. These will be considered in greater depth in chapter 4, and are referred to in the case study of Western Scotland, but the four most important principles were undoubtedly those set out above.[3]

It should be emphasised at this point, however, that these principles did not emerge in 1988 like some *deus ex machina*. Rather, it is suggested in this chapter that these guiding principles have informed European Commission attempts to reform the ERDF since its earliest years. This is not simple teleology: although not always referred to using the same terminology (for example, the term partnership seems to have emerged in the context of the ERDF only in 1983[4]), these principles for reform have been promoted by the Commission in the evolution of the ERDF over many years. Although progress towards acceptance of the principles was piecemeal and laborious, as far as the Commission was concerned, the objectives of the latter have been constant. The extent to which these principles have been accepted and put into effect has determined the Commission's ability to direct the ERDF away from the purely compensatory function towards a fully-fledged development function. The analysis presented below therefore focuses on Commission advances since 1975 on these key principles, and hence, more generally, on the European Commission's control over the deployment of ERDF resources.

As well as providing an analysis of the evolution of the ERDF that is essential for subsequent chapters, this chapter also places the large body of secondary literature on the ERDF in the context of wider theories of EC policy-making and implementation. Early

[3] The European Commission itself refers to 'the four general principles' of the reform as concentration, programming, partnership and additionality (1993c).

[4] In a 1983 document entitled 'Increasing the Effectiveness of the Structural Funds', the Commission argued that 'the Member States must accept the Community as a *partner* in structural initiatives' (Laffan 1989: 47).

theories of EC policy-making were dominated by the 'neofunctionalist approach' and the diametrically opposed critique constituted by 'intergovernmentalism'. These were essentially attempts to develop theories of integration between nation-states in western Europe. Policy-making accounts were later derived from these approaches, showing how the development of any policy was related to the emergence (or absence) of supranational authority in Community institutions. As such, they attempted to explain bargaining at the European level and the role of the European Commission therein. To use the terminology employed in the introductory chapter, these approaches focused primarily on *horizontal* negotiations between member states at the European level and paid little attention to the question of *vertical* power relations within EC member states. Although out-dated in many respects (as is suggested in chapter 4), the approaches of neofunctionalism and intergovernmentalism are nevertheless presented briefly in **Section 3.2**. Not only would a study of EC policy-making seem naked without some reference to them, but a consideration of the two approaches also allows the secondary writing on the emergence and history of the ERDF to be placed in some theoretical context.

As explained above, **Section 3.3** provides a comprehensive analysis of the emergence and development of the ERDF. Each sub-section of this analysis, corresponding to a key stage in the evolution of the Fund, therefore concludes with a summary of contemporary accounts of policy developments. Although very few of these accounts refer specifically to the debate between neofunctionalism and intergovernmentalism over European integration, this debate informed practically all the political interpretations of the ERDF in that the tension between supranational and intergovernmental styles of policy-making was invariably to the fore.

With regard to studies of the implementation stage of the European regional policy process, the general paucity of EC implementation studies is reflected in the scarce attention paid to the 'vertical' process of deploying ERDF resources within member states. In Lewis and Wallace's edited collection of case studies entitled *Policies into Practice: National and International Case Studies in Implementation* (1984), the authors identified a gap in the implementation literature in that there were few studies of implementation across different policy sectors and no studies across states. '*Policies into Practice*' was a contribution to the bridging of this gap, but since then no substantial body of literature has been built up to allow systematic analysis of the implementation of EC policies within member states. Krislov, Ehlermann and Weiler (1986) and Siedentopf and Ziller (1988) have provided general legalistic accounts of 'non-compliance' with Community law, but the gap identified by Lewis and Wallace remains largely unfilled.

Those few accounts that do consider the ERDF from an implementation perspective are examined in **Section 3.4**.

Before turning to the detailed analysis of the ERDF, the primary research sources utilised in this chapter should be acknowledged. The years 1975 to 1988 constitute the main period under concern in this chapter, and as such, the chapter has not drawn directly on interview sources. Nevertheless, other empirical sources have been plundered. Official publications of the European Communities (communications setting out guidelines and proposals for reform, as well as European Commission guides and reports) are used to supplement the large body of secondary literature. In addition, the reports dealing with the ERDF prepared since 1977 by the UK House of Lords Select Committee on the European Communities provide excellent information on the evolution of the Fund and have been drawn on heavily for the purposes of this chapter. The reports reproduce not only the written and oral testimonies of politicians, but also those of European Commission officials, central government civil servants and employees of local agencies involved in the implementation of ERDF actions. As such, the Select Committee reports warrant special mention as they provide an invaluable source of information for an account of the evolution of the Fund. The following analysis, constructed on the basis of these sources, therefore sets out the historical policy context within which to place the case study presented in later chapters. It is to the early attempts to conceptualise EC policy-making that this chapter now turns.

3.2 Early Theories of EC Policy-Making

Early approaches to the study of policy-making at the EC level were developed primarily from the perspective of international relations, and theories of regional integration in particular. A recent review paper by Caporaso and Keeler (1993) provides a useful stocktaking of theories of regional integration as applied to the European Community. An influential early approach, the lessons of which continue to filter through to much of present-day theorising on European integration and EC policy-making, was that of neofunctionalism. The basic contours of the neofunctionalist approach are well-known, and need only be sketched briefly here as a context for the remainder of the chapter.

Neofunctionalism was essentially a *process-oriented approach* seeking to explain the integration of states in western Europe.[5] Hoffmann has suggested that, as a grand

[5] The prefix 'neo' confirmed recognition of the earlier theory of international integration outlined by David Mitrany and known as 'functionalism', whereby, 'by isolating those responsibilities that could best be carried

theory of 'European integration' (implicitly attributed to Jean Monnet and explicitly to Ernst Haas), neofunctionalism 'performed much better as an initial goad than as a permanent explanation' (1983: 29). While earlier theories of integration had focused on the flow of goods, services, people and communications across countries as key explanatory variables (Deutsch 1957), Haas placed a greater explanatory burden on institutions and attitudes. The neofunctionalist approach argued that the staking of the claims and demands of group interests directly at Community institutions implied a transfer of group loyalties to the supranational level. Hence, governments, interest groups, bureaucracies and eventually broader political elites would pursue their goals at a supranational level and so this level would progressively grow to resemble the domestic political constellation: 'a new political community, super-imposed over pre-existing ones' would therefore emerge through the gradual transfer of demands, loyalties and action by political elites to the European level (Haas 1958: 16).

According to the neofunctionalist approach, the two key mechanisms by which the process of supranational integration was inexorably driven were 'spillover' and 'issue linkage'. The former implied a continually expanding mandate for the European level authority as its competencies spilled over from one sector to another functionally linked sector: for example, after the initial decision was taken to set up a common energy policy in coal production, the need to co-operate would automatically spill over into other sectors such as nuclear energy production (Andersen 1993). The latter mechanism of linking issues meant that bargaining could be envisaged as a 'variable sum game' in the sense that not all the gains made by one actor were necessarily balanced by the identifiable and equal losses of another (Webb 1983: 17-18). Losses made by one actor in decisions over issue X, for example, could be balanced for the same actor by gains as a result of more favourable decisions over issue Y. Neofunctionalism suggested that the European Commission had a central role to play in pinpointing such potential gains through issue linkage.

This brief presentation of the neofunctionalist approach to the understanding of policy-making in the EC has thus far been general and located in the realm of international relations and integration theory. As Andersen has more recently shown, however, neofunctionalism did not simply present a deterministic model of integration, but also showed how policy evolution was closely related to the development of supranational authority at the European level and hence to the relative strength of the different institutions which constitute the EC decision-making system:

out internationally, and building upon them, progress toward integration would be continuous with ultimate transmutation into new dynamic types of governmental forms' (Krislov, Ehlermann & Weiler 1986: 7).

> Leaving aside the idea of historical necessity, the neofunctional perspective also contained a scheme for more concrete analysis of policy sectors. In this sense, it represented a pluralist model of international politics. The model accepted that states could be complex actors, as well as taking into account the role of non-state actors. Of the latter type of actor, the most important was considered to be the Commission (1993: 135).

In putting the policy dimension to the centre of analysis and sketching how this might be handled in theoretical terms, Webb (1983) identified neofunctionalism and intergovernmentalism as the two major, diametrically opposed frameworks which had been used, either directly or implicitly, as the basis of general political interpretations of the EC to that time. She therefore provided an early analysis of the relevance of general integration theory to more detailed, policy-oriented analysis. Webb highlighted the fundamentally pluralistic view of society underpinning neofunctionalism, with its implication that 'the staking of claims and demands in return for exchanges of political loyalties reinforced the authority of the system as a whole' (ibid.: 17). For neofunctionalist analysis, such patterns of political activity were directly transferable to the European setting. The key to understanding policy-making at the European level lay in the fact that the resolution of competing claims took place in a way that not only facilitated issue linkage and hence variable sum bargaining, but also resulted in a policy outcome with an expanded mandate for the European Commission: 'thus, as is well known, neofunctionalists pin-pointed the Council-Commission dialogue as the central innovative feature of the policy process in the Community, and saw the Commission as the mediator and principal source of ideas for securing agreement amongst the national positions' (ibid.: 18).

In the case of European regional policy and regional politics, this pluralistic account would also envisage a strong role for sub-national actors. The creation of the ERDF witnessed the re-emergence of the vague aspiration of a 'Europe of the Regions', considered in the introductory chapter of this study. Although not constituting a separate theory of integration in Europe, and still less a theory of EC policy-making, the notion of a 'Europe of the Regions' lurks in the background of many early accounts of the ERDF. This reflects the optimism of many at that time that direct and meaningful contacts between the European Commission and regional actors could be realised in this policy field. The encouragement of regional mobilisation and the development of supranational authority would go hand-in-hand. For example, MacFarquhar suggested that, 'the ultimate aim of the strategy would be a *Europe des Régions* in which the national governments gradually withered away making possible the development of a strong European government and the elimination of the national tier of bureaucracy' (1978: 23). It is not suggested here that they are synonymous, but the 'Europe of the Regions' notion can be considered as a specific variant of the neofunctionalist approach. The pluralistic bias of the 'Europe of Regions' notion, the strong role it foresees for the European Commission, and its prediction of the eventual dissolution of member state central bureaucracies (as regional elites transfer their loyalty to the European level) show strong similarities with the neofunctionalist approach. The practice of the ERDF in the early years, as shown below, soon dented such aspirations.

Many studies of the integration process, and of EC policy-making, in the 'Eurosclerosis' years of the 1970s and early 1980s rejected neofunctionalism in favour of an 'intergovernmentalist' approach. Lacking coherence as a theoretical framework, intergovernmentalism is best understood with reference to neofunctionalism in order to emphasise what it is not. While neofunctionalism was a process-oriented approach, intergovernmentalism presented an *equilibrium approach* to political interaction. In other words, intergovernmentalism tended to present static interpretations, focusing on bargains between member state governments instead of questioning how the bargaining scenario was shaped in the first place.[6] Intergovernmentalism assumed that the domestic interests of the member states were simply transferred to the European level. Institutions at that level were understood to adapt effortlessly to these interests, and therefore remained external to the explanatory framework. Instead, outcomes were explained purely in terms of intergovernmental bargaining.

Webb also considered the intergovernmentalist approach from an explicitly policy-oriented perspective, using metaphors to illustrate the central differences between the two basic approaches. While neofunctionalists typically preferred the so-called 'cobweb' image of Community policy-making to stress the importance of interlocking and binding mutual interests at all levels, intergovernmentalism typically relied upon the 'billiard ball' metaphor (1983: 17-27). In the latter, member states were envisaged as hard-shelled, separate entities coming together to resolve policy matters at the intergovernmental apex of the Community structure. European level decision-making was portrayed as a zero-sum game, with a 'gladiatorial image' of policy-making where

[6] Keohane and Hoffmann have suggested more recently that the two approaches are complementary since, 'although the *process* of European policy-making is supranational, all this negotiation and coalition-building takes place within the context of agreements between governments... Our argument is that successful spillover requires prior programmatic agreement among governments, expressed in an intergovernmental bargain' (1991a: 17).

member state representatives joust in intergovernmental fora to defend their domestic interests. Such a framework, in which the importance of the member states' governments is institutionalised in the explicitly intergovernmental machinery of the European Council and Council of Ministers, assigned an extremely limited role to the European Commission. It identified the role of the state as gatekeeper and prime actor at the European level as a constraint on the Commission's ability to shift allegiances towards itself and thereby expand its mandate (Hoffmann 1966).

Despite early enthusiasm, accounts of the emergence and early development of the ERDF, have largely favoured an intergovernmental framework to characterise the EC regional policy process. Such accounts relied on three broad sets of evidence to support the claim that the dominant approach in the field has been intergovernmental: firstly, the reasons behind the emergence of the ERDF, and the secondary importance of the development function therein; secondly, the historical details of the setting up of the ERDF, when the Fund was cut down from the Commission's ambitious initial proposals to a mere mechanism for budgetary redistribution reflecting dominant member state interests with little Commission input; and thirdly, the stuttering and faltering manner in which the policy developed in the years from its creation in 1975 to the late 1980s. The first two sets of evidence concern horizontal negotiations between member states and are considered in the following section 3.3.1. The third set of evidence focuses on the attempts of the Commission to carve out a greater role in the vertical process of spending those resources nominally devoted to regional development. The rest of the chapter focuses on this vertical process and the evolution of the ERDF from 1975 until the 1988 Structural Fund reforms. The focus adopted herein is on European Commission advances over these years on the key principles of *concentration*, *programming*, *partnership* and *additionality*, and hence on the Commission's ability to enhance its control more generally over the operation of the ERDF.

3.3 The Laborious Construction of a Community-Level Regional Policy

3.3.1 *The Emergence of the Regional Fund*

An understanding of why a regional fund at the Community level emerged in the first place is instructive in exposing the logic of EC regional policy. That regional policy emerged very much as a 'latecomer' among Community policies devised since the Treaty of Rome was signed is something of a truism in the literature (Clout, Blacksell, King & Pinder 1989: 192; Scott & Mansell 1993). Despite the Preamble to the Treaty of Rome, which stated that the member states were 'anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions', there was no provision for a common regional policy, although Vanhove and Klaassen have drawn attention to the 'implicit references' to such a policy (1987: 382). It is often suggested that the reason for the initial absence of an EC-level regional policy lies in the fact that the founders of the Community expected economic growth in the 1950s and 1960s, resulting from the gains of completing a common market, to reduce regional disparities automatically (Porro 1980: 112). In fact, little headway was made in these years in reducing disparities between the Community's regions in terms of income, productivity or employment rates (Pinder 1983). McCrone's observation that regional disparities naturally accompany economic development (1969) implies that policies to address such disparities only emerge when the problem becomes politicised. However, 'the existence of regional disparities in the Community has never in itself been a sufficient reason for the development of a Common Regional Policy' (Martins & Mawson 1980: 29). This sub-section therefore seeks to show that the member states adopted a regional policy in the early 1970s as a roundabout means of addressing budgetary contributions, and not primarily to address regional economic disparities.

Following the enlargements of the early 1970s, there emerged the highly sensitive question of 'who benefits?' from the major instruments of the Community budget. It was evident that the largest element of the EC budget, the Common Agricultural Policy price support framework, had little to offer the UK while a regional policy would appeal to all of the newcomers (Pinder 1983: 18; Shackleton 1991: 95). The simultaneous decision to introduce moves towards Economic and Monetary Union (EMU) was also significant. The final communiqué of the Paris Summit meeting of October 1972, the first at which the prime ministers of the new member states were present, spoke of correcting 'the structural and regional imbalances *which might affect the realisation of Economic and Monetary Union*' [emphasis added] (House of Lords 1981: vii). The goal of EMU necessitated convergence of member states' economies and in public expenditure patterns. A Community level redistribution mechanism between member states was therefore required, and the decision was taken at the Paris Summit to analyse the extent of regional disparities throughout the Community and to set up a fund by the end of 1973. The responsibility for overseeing the preparation of the report and the establishment of the fund was given to George Thomson, Commissioner for Regional Policy. The new regional fund would provide a *communautaire* gloss to budgetary redistribution between the member states. As Ingram and Mann point out, governments often choose roundabout means to address problems that they do not wish to address directly (1980: 20).

From the outset then, the ERDF was designed to *compensate* member states (primarily the UK) for contributions to the Community budget. Moreover, it has also been suggested that EC regional policy was motivated by the economics of 'compensational logic' in the sense that a member state may be compensated for the economic costs of Community membership. For example, a member state may be compensated for the loss of control over instruments of economic policy such as the levying of customs duties, currency flexibility, industrial subsidies and other measures which could otherwise have been used to protect the interests of its own domestic economy (Holland 1976; Martins & Mawson 1980: 51; Mellors & Copperthwaite 1990: 23). In this way, Community regional policy was conceived as a secondary or 'marginal' policy, tacked on to temper the negative spatial implications of major initiatives such as the customs union, monetary union, competition policy or other 'central' policies. Even the Commissioner for Regional Policy in the late 1970s accepted many of the criticisms levelled at the ERDF when he acknowledged that it was simply 'an accompanying measure', developed to cope with the detrimental effects of the main Community policies (quoted in Mawson, Martins & Gibney 1985: 20). In short, regional policy was very clearly a secondary policy in terms of both its economic justification and the political weight attached to it. Its potential development function was not what persuaded member states at the Paris Summit to set up the ERDF.

The emergence of a policy issue may nevertheless create the opportunity for other issues to be considered simultaneously, so that different issues may be dumped into what becomes a common 'garbage can' (Cohen, March & Olsen 1976). In contrast to the openly minimalist interests of the member states' governments in compensation, the European Commission argued at that time for the promotion of the political and economic cohesion of the Community. The *Report on the Regional Problems in the Enlarged Community* (commonly known as the Thomson Report) presented in 1973 summarised this view well:

> No Community could maintain itself nor have a meaning for the peoples which belong to it so long as some have very different standards of living and have cause to doubt the common will of all to help each Member to better the conditions of its people (European Commission 1973: 7).

Despite the *communautaire* tones of the Thomson Report and its emphasis on the moral obligations of the member states to address regional disparities, the actual task of creating a regional development fund acceptable to all member states proved far from straightforward. From the presentation of the Thomson Report in 1973 until November 1974, fourteen different funding arrangements were proposed by the European Commission and individual governments. The deadlock was only broken when Italy and Ireland - the new Labour government of the UK was too busy with its commitment to re-negotiate the British terms of entry to become deeply involved in the regional policy debate at this stage - threatened to pull out of the Summit meeting of December 1974 if agreement was not reached immediately (Pinder 1983: 18).

Disagreement between the member state governments arose over three key issues: the definition of regions eligible for assistance; the size of the fund; and the allocation mechanism. Over each of these issues there was a retreat from the ambitious proposals of the Thomson Report with the enforcement of the lowest common denominator interests of the member states, thereby leading to fierce criticism of the fund eventually established. With regard to the definition of regions, the Thomson Report had faced the difficult task of producing a standardised survey of regional disparities in the EC by bringing together diverse sets of data submitted by the member state governments. Ultimately however, the only politically acceptable solution was to take as a basis those areas already defined by member state governments for the purposes of their own domestic regional policies. In financial terms, Thomson's proposal envisaged a fund of £900 million to be allocated by the Commission during the period 1974-76. West Germany, as the major net contributor, objected to this figure and advocated a slimmed down ERDF of £250 million for the same period. After almost a year of stalemate and wrangling, a compromise was reached in December 1974 when the figure of £540 million was agreed for the period 1975-78 (Mawson et al. 1985: 25). Moreover, it was originally envisaged that the Commission would have the major role in the allocation of the Fund. The member state governments objected to this proposal as well and in the end it was simply agreed to share the Fund among the Nine member states according to a fixed quota system.

The European Commission's ability at that time to create a Community regional policy embodying a positive development function was severely limited. When the House of Lords Select Committee on the European Communities first reported on the new European Regional Development Fund in 1977, it therefore concluded that 'all the evidence received suggested that the Community had a Regional Fund but did not have a coherent and comprehensive regional policy' (1977: 11). Before turning to examine the provisions of the new Fund Regulation in greater detail, however, contemporary accounts of the emergence of the Fund can be summarised.

There are several early descriptive accounts of the emergence of the Fund (Buck 1975; Romus 1975; van Doorn 1975). Lind and Flockton (1970) provide a particularly useful history of the first Commission attempts to promote a common regional policy. These accounts generally support the view that the compensatory function of the ERDF was dominant at the creation of the Fund: van Doorn regretted that 'one is almost forced to accept the idea that the establishment of a Regional Development Fund is not so much an instrument to deal with regional disparities as a means to cope with national disparities regarding contributions from and payments to the Community budget' (1975: 400). Despite the primacy of the compensatory function, however, the European Commission's intention to promote development objectives was nevertheless identified by Rhodes (1974) before the ERDF was even established. The relationship between the European Commission and sub-national units of government was therefore of interest and deserved research according to Rhodes, because of the importance it would have for the administration of the Fund. However, the idea of a 'Europe of Regions' was clearly 'a non-starter' as the European Commission was, from the start, interested in regional political arrangements only to the extent that they would influence the development function of the Fund (1974: 112). As the following sub-section shows, however, the provisions of the 1975 Fund Regulation did not facilitate direct contact between the European Commission and sub-national units of government.

3.3.2 *The 1975 ERDF Regulation*

The European Regional Development Fund was established in March 1975 under Regulation (EEC) 724/75, eighteen years after the signing of the Treaty of Rome. The objective of the new instrument was set out in Article 1 of the Regulation where it was stated that the Fund was 'intended to correct the principal regional imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural unemployment'.[7] To this stated objective, the Heads of State and Government of the member states meeting at the Paris conference on 10 December 1974 had set an allocation of 1,300 million units of account (approximately £500 million) for the three year trial period 1975 to 1977. The Fund therefore constituted only a very small proportion of the amount spent by member states on their own domestic regional

[7] O.J. No. L 73, 21 March 1975.

policies, with one estimate suggesting that, even on the most generous of calculations, Fund commitments to the UK were well below 10% of domestic expenditure in this field (House of Lords 1977: 10).[8] In addition, at the same conference in December 1974, the decision was taken to establish a *quota system* for the distribution of these resources among member states, ostensibly to ensure that those countries with the most severe regional problems (the UK, Italy and the Republic of Ireland) were net beneficiaries from the Fund. This quota system, established against the advice of the Thomson Report, shaped the operation of the Fund in its early years.

The original Thomson Report of 1973 had stressed that 'there must be standards to ensure that the means available to the Fund are used in a manner quite independent of any criterion of *juste retour*, and which reflect the size and urgency of the regional problems facing the Community. The acceptance of this principle will be an important test of Community solidarity' (European Commission 1973: 12). The Fund eventually established, however, was based firmly on the principle of the *juste retour* through the quota system. These quotas were subsequently set out in Article 2 of the Fund Regulation.[9] As a result, only three countries (the UK, Italy and the Republic of Ireland) obtained a net benefit from the Fund. The fact that every member state received something from the Fund resulted in the anomalous situation that all of the ERDF aid going to Germany was spent in areas that were wealthier than any part of the UK (House of Lords 1981: 94). Article 2 of the new Regulation therefore testified to the role of the Fund as a transfer mechanism between member states. George Thomson himself, the Commissioner with responsibility for Regional Policy, dismissed the quota system as 'a great handicap to trying to use the Fund for a positive purpose' (House of Lords 1977: 84). As such, the quota system did not allow for a real *concentration* of resources and was the most obvious indication of the Fund's compensatory function.

With regard to the actual deployment of the ERDF resources, the preference of the European Commission for 'industry' over 'infrastructure' projects, which in later years was to become a key issue of dispute with the UK government, was apparent from the outset. Article 4 of the Regulation stipulated that the Fund could contribute to the financing of investment projects exceeding 50,000 units of account in both 'industrial'

[8] Moreover, a proposal to index the sum devoted to the Fund in order to avoid the erosive effects of inflation had been resisted by the German government. As a result, it was calculated that the real value of the funds disposed by the Community over the first triennium were reduced by around 50% through inflation (House of Lords 1977: 69, 97).

[9] The allocations per member state were as follows: Italy 40.0%; United Kingdom 28.0%; France 15.0%; Federal Republic of Germany 6.4%; Ireland 6.0%; Netherlands 1.7%; Belgium 1.5%; Denmark 1.3%; and Luxembourg 0.1%.

and 'infrastructure' categories. While the Commission would contribute up to 50% of the cost of projects aiding 'industrial, handicraft, or service activities', the rate of support for infrastructure investments could not exceed 30%. Moreover, a requirement was established that assistance to infrastructure investments had to show a 'direct link' with the development of industrial activities.[10] A ceiling of 70% was imposed on the amount of ERDF allocated to infrastructure projects in the Community as a whole, reflecting the European Commission's belief that major infrastructure projects were generally of less importance in the conversion of regional economies and would no doubt have gone ahead with or without ERDF assistance.

The principle of *additionality* - the requirement that European grants should be additional to (and not a substitute for) national aid to target regions - has been the most fiercely contested of all the principles underpinning Community regional policy. As such, the extent to which the European Commission has been able to secure the additionality of expenditure has been the most obvious indicator of its level of general control over the European regional policy process. Although the principle of additionality was not written into the text of the original Fund Regulation, it played a 'central role in the theology of Community financial expenditure' from the beginning (Laffan 1989: 47). The declaratory preface to the 1975 ERDF Regulation therefore stated that, 'the Fund's assistance should not lead Member States to reduce their own regional development efforts but should complement those efforts'. In reality, the Fund was used in its early years primarily as a reimbursement to member state governments for expenditure that had already been incurred, with no obvious increase in the resources devoted to regional development.

In the very first year of the Fund's operation, the Danish government explained its apparent failure to increase expenditure on regional policies by promising that if it had not received its ERDF allocations, the amount it had actually spent on regional policies would have been *reduced* (European Commission 1976a: 16). According to Buck, the European Commission's acceptance of this line of argument meant that the 'Danish device became the standard tactic for Member States wishing to pocket all R[egional] D[evelopment] F[und] proceeds and reduce their public borrowing requirements' (1981: 32). The UK government position was made clear in September 1975 when two press releases were issued explaining the government's interpretation of additionality. A clear understanding of the intricacies of additionality is absolutely essential for the subsequent chapters of this study, and hence some attention should be given to explaining the nature of the additionality that operated according to the UK government. To do so, the

[10] Infrastructure projects qualifying for assistance included not only industrial estates and advance factory buildings but also roads and other transport facilities, port facilities, and water and energy supply networks.

following considers additionality firstly with respect to *industrial investments* and then with respect to *infrastructure investments*, a crucial distinction that must be emphasised.

With regard to investments in *industry*, the Department of Industry clearly stated in evidence to the House of Lords Select Committee on the European Communities that individual companies 'get no direct benefit from the Fund' (House of Lords 1981: 5). By contrast, the UK government made use of the provisions of Article 4.2(a) of the Regulation allowing central governments to retain receipts passed from the Commission as partial repayment of state aids. Adopting an argument similar to that outlined by the Danish government, the Department of Industry suggested that a system of 'global additionality' operated so that 'the receipts accrue to the Treasury in the first instance but those receipts are taken into account when settling the level of regional expenditure on the industrial side' (House of Lords 1977: 32). Hence, in setting the level of expenditure under the UK's own 'Regional Development Grant' or 'Regional Selective Assistance' schemes (see chapter 5), Treasury and Department of Industry ministers would anticipate the level of ERDF resources to be received as reimbursement for projects under these schemes, and would therefore set the level of expenditure on such schemes higher than it would otherwise have been. Moreover, as ERDF grants were not passed on to individual companies, central government had to rely on the benevolence of companies in receipt of domestic industrial incentives in allowing their projects to be submitted to the European Commission for the benefit of central government. A Department of Industry press release on the subject of additionality explained this position in September 1975:

> The level of public investment in regional development as a whole, which is settled year by year, will in future be determined taking accounts of funds received from the Community - receipts from the Fund must go to the Government rather than to the promoters of individual projects (House of Lords 1977: 94).

In this way, global additionality was deemed to be built into the regional policy expenditure system on the industrial side. The lack of transparency in this process, however, was a key issue at the heart of the problem, as Lord Roberthall noted in 1981:

> The outside world has really to take ministers' words for it, has it not, because no one else will know whether, in the discussions between the Department [of Industry] and the Treasury, the Treasury jacked it up a bit because they knew they were going to get some regional assistance, or in their mind notched it down a bit less because they would get something there (quoted in Preston 1983: 23).

With regard to investments in *infrastructure*, the procedure of global additionality was equally as obscure, but with an element of direct financial benefit accruing to the public agency undertaking an investment, through savings on interest payments in the first year of the project. Infrastructure project sponsors included port and rail authorities, water boards, nationalised energy suppliers and development agencies, but the overwhelming majority of such projects were sponsored by local authorities. Global additionality was deemed to exist with respect to local authority capital expenditure. It is therefore essential to distinguish between a local authority's capital and revenue accounts.

A local authority's power to spend on capital investment (for instance, infrastructure provision such as buildings or serviced industrial sites) is set by its level of 'capital spending consents', determined by central government. Local authorities in Scotland are required by statute to obtain the Secretary of State for Scotland's consent before incurring a liability to meet a capital expense.[11] The granting of this consent does not involve a transfer of money, but rather sets a ceiling on the capital expenditure which the local authority is allowed to spend. The local authority will then borrow, either from the Public Works Loan Board (a government agency which raises funds for lending to public authorities) or in the money market (Martlew 1984: 4), up to this ceiling to finance capital investments. Under the financial planning system introduced in 1977 all local authorities prepare a financial plan of their proposed capital expenditure over the next five years, largely determined by planned infrastructure provision. These plans are considered by the Secretary of State for Scotland who then decides upon the level of borrowing each local authority should be allowed in order to finance capital expenditure.[12] Just as central government claimed to anticipate ERDF receipts for industrial investment projects in setting expenditure for domestic industrial assistance schemes, so the logic of global additionality was applied to ERDF infrastructure projects with the claim that the capital expenditure ceilings of local authorities were set higher than they would otherwise have been.

There was, nevertheless, a key difference in the treatment of grants between infrastructure and industrial projects. Whereas ERDF receipts for industrial projects were not transferred to individual companies, ERDF receipts in respect of infrastructure were passed on to individual local authorities. The key point to note, however, is that *there*

[11] The Secretary of State for Scotland is the Cabinet Minister with responsibility for The Scottish Office, a central government department described in greater detail in chapter 5 alongside all the 'partners' involved in the implementation of ERDF programmes in Western Scotland.

[12] This task is performed by the Minister at the Department of Environment for local authorities in England, and the Secretary of State for Wales for local authorities there.

was no corresponding rise in the capital expenditure ceiling of the authority. In other words, any grants for capital expenditure schemes which a local authority received from the European Commission could not be treated as capital receipts. The practical problem this presented for many local authorities was that they were not able to spend the grants they had been allocated from the ERDF as they had already spent up to their pre-set capital expenditure ceilings. According to government officials at that time, the failure of ERDF grants to confer automatic increases in the capital spending ceilings of public authorities was justified by the need to restrain public expenditure generally (House of Lords 1977: 39).

An element of direct financial benefit did, nevertheless, accrue to individual local authorities in receipt of ERDF through savings on interest payments. As the ERDF receipts in respect of infrastructure were actually passed to the authorities undertaking the eligible projects, these authorities were able to reduce their borrowing requirements. Although receipt of the grant did not allow additional projects to be undertaken, it did allow the authority to reduce the borrowing requirements to finance the same level of activity, and hence loan repayments were reduced. As is shown in chapter 5, this small financial benefit was often used by local authorities to finance the salaries of a few economic development officers, but its benefit should not be exaggerated. The benefits of the reduction in interest repayments accrued to the local authority only for the period between the receipt of the ERDF grant and the subsequent adjustment made to the local authority's block grant from central government in the following financial year. One element in the calculation of the central government grant to each local authority was based on the resources of the authority, so that the Treasury 'clawed back' the benefit of the authority's reduced loan charges by subsequently reducing its 'Rate Support Grant' (see Chorley 1986: 28). The government position on ERDF part-financed infrastructure projects was therefore set out in a Department of the Environment press release as early as September 1975 which stated:

> In present circumstances ... the Government would not feel able to authorise individual local authorities to undertake additional projects because of the availability of assistance from the Fund. The Government's intention was that the monies received from the Fund should be passed to the authority responsible for the project, and used to reduce the cost to the authority, and so the amount which had to be borrowed to finance it ... the unused borrowing authority should not be used for any other scheme (House of Lords 1977: 94-95).

The clear dissatisfaction of local authorities in eligible regions with regard to the operation of 'non-additionality' could rarely be coherently expressed at the Community level. With regard to early forms of *partnership*, or even direct contact between the European Commission and regional actors, the ERDF was again a pale shadow of a proactive regional policy. One regional development agency from the UK which did visit Brussels to discuss the ERDF with the Directorate-General for Regional Policy in the early years found that 'officials were most anxious to encourage regional inputs in an attempt to broaden their own understanding of the problems facing the region' (House of Lords 1977: 92). Despite the apparent hunger of DG XVI for information on regional development problems and opportunities, the UK government's procedures ensured that central government remained firmly in control of the ERDF process.

The European Commission was required to consult two intergovernmental management committees dealing with ERDF issues. Individual projects were formally approved by a *Fund Management Committee*, set up under the Fund Regulation, which met in Brussels three times a year under the chair of the European Commission but was composed of two representatives from each member state. It discussed batches of projects, whether they should receive assistance and at what grant rate (i.e. the percentage of Fund contribution). The Fund Management Committee was complemented by the consultative *Regional Policy Committee*. Such a Committee had been advocated for many years by the European Commission and was finally set up under Council Decision (75/185/EEC) at the same time as the creation of the ERDF. Like the Fund Management Committee, the Regional Policy Committee comprised two representatives from each member state (invariably senior civil servants with responsibility for regional policy) and the European Commission. Unlike the Fund Management Committee, however, it elected its chair from among the governmental representatives. The chief tasks of the Regional Policy Committee were 'to examine at the request of the Council or the Commission, or on its own initiative problems relating to regional development, the progress made or to be made towards solving them and regional policy measures needed to further the achievement of the Community's regional objectives'.[13] In other words, it sought to discuss the overall framework of regional policy and the co-ordination of government actions. Its mandate was therefore wide: on its own initiative or on the demand of the Council or the Commission, it could study any question related to regional development in the Community. However, the Committee's primary role was to facilitate exchange of experience (Wilson 1980: 17). While the Fund Management Committee was

13 Article 2 of Council Decision 75/185/EEC of 18 March 1975 creating a Regional Policy Committee, O.J. No. L 73 of 21 March 1975.

an overtly intergovernmental forum in which resources were divided up according to pre-set national quotas, the Commission had higher hopes for the Regional Policy Committee, viewing it as 'a constructive forum for *concertation*, and for moving towards a convergence of national approaches - crabwise rather than by overarching plans' (Wallace 1977: 158).

In reality, decisions at the Community level regarding which projects would receive assistance under the ERDF left very little discretion for the European Commission. Application for ERDF assistance was a fragmented process handled largely by the member states. Three times a year government departments[14] in the UK prepared lists of eligible projects. These were co-ordinated by the Department of Industry, where an informal rationing system existed between the nations of the Kingdom, and lists of infrastructure and investment projects were then sent to the European Commission. Only a few more projects than that allowed by the UK quota were submitted, thereby ensuring that government departments remained the 'principal arbiters' (House of Lords 1981: xii) of which projects would receive ERDF assistance. The Fund Management Committee then allocated funds strictly according to national quotas.

The Commission, with limited staff resources, had the task of simply rubber-stamping thousands of individual project applications every year. As the Head of the ERDF Operations Division in Directorate-General XVI told a conference in Bradford in 1985, 'it might not always be appreciated that the staff which is responsible for processing 5,000 applications annually only comprises seven 'A' officials' (Kinch 1986: 31). These executive grade officials would almost never visit a development region or see firsthand a regional policy project implemented. Likewise, groups of politicians or officials from a development region visiting the Commission in Brussels had to be extremely small in number, with discussions tightly focused on specific projects. DG XVI officials at that time were heavily dependent on national governments for information and local actors were only marginally involved.

One of the early Commission proposals which did survive and make its way into the 1975 Regulation was that for the preparation of *Regional Development Programmes* (RDPs), although the first round of programmes was not submitted to the Commission until three years after the Regulation. The actual task of specifying what the programmes should look like fell to the Regional Policy Committee, which adopted guidelines for the

[14] The Department of Industry prepared the list of eligible industrial projects in England while the Department of the Environment prepared the list of eligible infrastructure projects there. In Scotland, the Secretary of State for Scotland was responsible for both lists.

outline of RDPs in October 1975, setting out a common format for all member states.[15] In short, the RDP for any region was expected to 'indicate the objectives and the means for developing the region' (European Commission 1976b: 7). Early evidence had suggested that 'the paucity of information flowing from the regions to Brussels and back again' made worse 'the absence of a coherent regional policy' (House of Lords 1977: 12). The hope was that RDPs would allow the development of a more comprehensive regional policy by bringing together the Commission, national governments and regional bodies in the preparation of regional economic objectives and priorities. The programmes would therefore be submitted to the European Commission and the management committees to inform the process of project selection. The major objective underlying the creation of the RDPs was 'to supply the Commission with a coherent overall perspective on the regional imbalances within the Community, thereby creating the possibilities for a better allocation of ERDF assistance' (Martins & Mawson 1982b: 231).

In the event, the first RDPs submitted to the European Commission were widely criticised for their obscurity and lack of detail. The Court of Auditors suggested that they were 'generally too vague to be of any practical use for the selection of projects' (1980: 120). Martins and Mawson highlighted the vagueness of the UK's RDP, which had been prepared by central government with little input from regional and local actors. In their evidence to the House of Lords Select Committee on the European Communities, the authors also pointed to the difficulty that the United Kingdom had faced in preparing the document, as a result of a 'centralized and fragmented approach to expenditure planning, particularly in respect of infrastructure' (1982a: 59). The House of Lords Select Committee itself had earlier criticised the Commission's 'desire to secure a standardised Community-wide approach via the mechanism of the RDPs outline (analysis, objectives, measures, resources and implementation)', since this reflected 'a somewhat naive view that it is possible to impose a rational normative method of regional planning on Member States' (1981: 122). Despite the Lords' scepticism, the Commission was finally able to impose such a system in 1988. Given the primacy of the compensatory function in the early years of the ERDF, however, the clash of objectives made such rational planning techniques appear absurd.

The ERDF as it was eventually created, following a period of high expectation, was subject to severe criticism. The Fund was viewed by many as no more than a '*quid*

[15] These Regional Development Programmes should include five chapters as follows: (i) an economic and social analysis highlighting obstacles to the potential for development in the regions; (ii) development objectives; (iii) the measures to be adopted; (iv) financial resources, by type of expenditure and source of revenue; and (v) a timetable of implementation arrangements (Commission 1976b; cf. Vanhove and Klaassen 1987: 407–408).

pro quo for irreducible spending on agriculture and a convenient machinery for channelling transfer payments between member countries' (MacLennan 1981: 25). Although it was primarily a convoluted administrative mechanism for achieving the objective of budgetary redistribution between the member states, the ERDF nevertheless served the additional symbolic function for the European Commission of creating the 'psychological effect' that 'Brussels' was 'doing something' for the depressed regional economies of the Community (House of Lords 1981: 91). The Commission's insistence, even from the earliest days, in demanding acknowledgement of its support through publicity posters and flags at the sites of assisted projects is easier to understand in this context. The House of Lords Select Committee itself concluded in its 1981 report that there was 'a good deal of charade in the whole of the regional policy', adding significantly, however, that, 'in politics charades are not only often useful but are often absolutely essential' (ibid.: 41).

The first academic accounts of the operation of the ERDF were likewise highly sceptical with regard to its capacity to perform an active regional development function (Wallace 1977; Armstrong 1978; Hull 1979). Wallace identified the two main elements in the European Commission's early strategy to influence regional development expenditure. Firstly, the Commission sought to express preferences on the nature and location of projects, *concentrating* expenditure in the most disadvantaged regions. Secondly, the Commission hoped to encourage member state governments to provide resources *additional* to that which they would otherwise have provided in development regions. The Commission failed to make headway with the member state governments on either of these principles in the early years. In effect, from the beginning, the ERDF was used to supplement national measures rather than to elaborate a supranational Community regional policy. Moreover, the decision to abandon the principle of concentration in favour of national quotas carried wide implications, as 'once a "carve-up" had been built into the R[egional] D[evelopment] F[und], the potential for the Commission to play an active role became open to question' (Wallace 1977: 154). It is to the first attempts to amend the Fund that the analysis now turns.

3.3.3 *The 1979 Fund Amendments*

The European Commission itself accepted many of the criticisms levelled at the ERDF, and Community regional policy more generally, in the years following the 1975 Regulation. The requirement that the ERDF Regulation should be reassessed before January 1980 provided the opportunity for the Commission to suggest alterations to the

Fund (Martins & Mawson 1980: 46). The subsequent Regulation amendments were published in 1979.[16] Two developments in particular should be noted: the introduction of a *non-quota section*, which represented an early advance for the Commission on the principle of *concentration*; and moves toward strengthening *co-ordination* through the principle of *programming*.

The non-quota section agreed by the Council of Ministers in February 1979 has been described as the first 'germ of an independent policy' for the European Commission in the area of regional development (House of Lords 1981: xxv). The non-quota section was a separate section of the Fund, allocated 5% of the ERDF resources.[17] The broad objective of this separate section was to permit more direct Commission involvement in the formulation of regional policy initiatives. For the first time, it allowed the Commission some flexibility in operations. Eligible regions were selected according to Community criteria and ceilings were raised for the level of contribution from the ERDF towards project costs. In addition, there was no pre-determined division of resources among the member states. The Commission was thereby able to formulate limited responses to specific problems of regional decline, usually problems of regionally focused sectoral decline. For example, early non-quota operations were directed towards regions experiencing closures in the steel industry and decline in the shipbuilding industry (as well as problems in the context of Community enlargement).[18] These initiatives were selected by the Commission. Another feature of the non-quota section was that support was provided under programmes of expenditure, thereby reducing the likelihood of financing unconnected projects. In other words, each programme was expected to be an 'integrated package of investment projects' (Mawson et al. 1985: 31).

The significance of the advances made under the introduction of the non-quota section, from the Commission's point of view, should not be exaggerated. There are two main reasons why this is the case. Firstly, the non-quota section constituted only 5% of the ERDF. As Mény explained at that time, if it remained at the 5% level, rather than constituting a truly Community regional policy, it would represent simply a 'fire brigade' operation called in to deal with the consequences of regionally based sectoral decline (1982: 385). Secondly, the programmes of expenditure suggested by the European Commission under the non-quota section had to be approved by the Council of Ministers

[16] The documents comprising the 1979 amendments are summarised by Martins and Mawson (1980: 55).
[17] This amounted to approximately £45 million annually. The Commission had originally proposed a non-quota section of 13% of the Fund, but this had proved unacceptable to the member states.
[18] The first and second series of non-quota measures, addressing enlargement, steel areas, shipbuilding areas, border areas, energy supply, and textile areas, were summarised by the House of Lords Select Committee on the European Communities (1984: xv, xviii).

on the basis of unanimity. European Parliament calls that the Council should vote on non-quota section programmes under a system of weighted majorities were ignored, as approval of the programmes involved considerable levels of political bargaining and compromise between the member states.

With regard to the principle of *co-ordination* of economic policies, the Commission proposed the preparation of a comprehensive Community-wide system of analysis to inform policy formulation. The objective of the 'Periodic Reports', as they became known, was described by Mathijsen, then Director-General of DG XVI, in the following terms:

> To be able to determine which effects which policies are going to have on economic integration it was proposed to adopt as a first concrete measure of economic policy the establishment of a comprehensive system of analysis and policy formulation. The aim is to assess the regional economies of the Community as a whole and of their respective development; it covers all the regions and should be as exhaustive as possible. Such an analysis is indispensable for diagnosing and remedying regional problems (1983: 181-182).

In an attempt to impose a rational approach to policy development, the intention was that the reports should provide the basis for more specific programmes of support for each region. The lack of comparable regional statistics across the member states was a considerable draw-back for the European Commission in its attempts to develop a more rational, technocratic approach to policy formulation.

The revised Fund Regulation also increased the role of the Regional Development Programmes. As the vast majority of the Fund continued to be distributed under the quota section, the primary task of the ERDF in fact remained that of supporting national regional policy initiatives. The European Commission and the Regional Policy Committee could, however, seek to improve the co-ordination of national policies. The Regional Development Programmes (RDPs) were the key instrument to this end. The Commission was expected to examine the programmes in view of Community objectives and thereby to determine the priorities for assistance from the Fund. Member states would then up-date the programmes annually, with the intention that the Commission would use them as the principle means for evaluating applications to the Fund (Wilson 1980: 14). In reality, however, member states continued to attach little importance to the documents and submitted programmes general enough to leave themselves wide room for manoeuvre. As Mény suggested, 'it is very easy to pretend that an individual project falls within a development programmes whose outlines are ill-defined' (1982: 384).

Contemporary writing on the amendments to the ERDF Regulation largely dismissed them as mere tinkering around the edges. Martins and Mawson wrote that the changes were simply 'marginal adjustments rather than a major step forward into the development of an effective Community Regional Policy', and hence, 'in the short run the C[ommunity] R[egional] P[olicy] will continue to be cosmetic in its character and functions' (1980: 49, 55). John Wilson, an official in DG XVI at that time, called for the replacement of the financing of individual projects by a system of programming involving 'contracts between national governments and the Community institutions'. The incomplete nature of any regional development agreement was acknowledged when he suggested that contracts would be 'binding but not completely rigid: possibilities for altering programmes would be required' (1980: 26). He recognised, however, that this would imply major changes in the Fund and greater discretion for the Commission, and hence that it would be resisted. Nevertheless, with hindsight, Wilson's explicit use of the term 'contracting' can be seen as a foretaste of the Commission's 1981 proposals for further reform.

3.3.4 *Commission Proposals for ERDF Reform 1981-83*

As a result of the failure to address the fundamental problems of the ERDF in 1979, disillusionment with the Fund remained deep. One commentator suggested that 'the present procedure whereby the Fund Management Committee and the Regional Policy Committee effectively rubber stamp the payment of pre-determined quotas of aid by processing many thousands of project applications which have already been approved and often started by Member States, with no additional aid discernibly accruing to any individual project, is now nowhere defended, least of all by those involved in the process' (MacLennan 1982: 40). Under the provisions of the Fund Regulation, however, another review of the operation of the ERDF was required during 1981. To this end, new proposals were brought forward by the European Commission in the form of a communication setting out new regional policy guidelines and priorities in July and a subsequent draft regulation in October of that year. The 'Giolitti proposals', as they were known after the Regional Policy Commissioner of the time, called for an overhaul of the system for distributing ERDF aid. The European Commission's guidelines (1981a) and draft regulation (1981b) essentially presented four key proposals:

(i) The Fund should be *concentrated* geographically to a far greater extent on those regions suffering serious structural problems, thereby excluding Belgium, Denmark, the Federal Republic of Germany, mainland France, Luxembourg and the Netherlands from support under the quota section of the ERDF (draft Articles 4 and 6);

(ii) the non-quota section of the Fund, devoted to programmes of specific Community interest, should increase from 5% to 20% of the Fund (draft Articles 4 and 27);

(iii) '*Integrated Development Operations*' combining various sources of Community finance should be introduced, following examples already initiated in Belfast and Naples, with a view to a greater element of additionality and better *co-ordination* of Community funds and policies with relation to regional development (draft Article 29);

(iv) a substantial shift over a three year period away from the financing of individual projects to development *programmes*, i.e. 'programme contracts', in selected regions over a three year period (draft Articles 7 to 11).

The proposals represented an attempt by the Commission to strengthen the principles of concentration, additionality and co-ordination. Programming would also be strengthened in two ways: firstly, enhanced Regional Development Programmes would be drawn up in close consultation with the regional and local actors involved in implementing the Fund assistance; secondly, programmes submitted for Fund support should take the form of a *programme contract*, prepared jointly by the national governments and local authorities concerned. In other words, the principle of programming should be strengthened in conjunction with a real process of 'partnership' between all the actors involved. The Commission deemed these principles necessary to redirect the ERDF from a purely compensatory role to a genuine development role. As such, the proposals sparked a long debate among member state governments, and the Council of Ministers' refusal to accept them lasted for more than two years. That the greatest difficulties arose in the Council of Ministers negotiations over proposals (i) and (ii) as sketched above (the principle of *concentration* of resources) supports the contention that many member states viewed the ERDF as primarily a compensatory mechanism (House of Lords 1984: 2). The argument that the resources were limited and should therefore be concentrated on the regions of greatest need to produce the greatest impact carried little weight. Eventually, the European Commission was obliged to prepare a reworked set of proposals in November 1983. Before analysing the reworked proposals which ultimately provided the basis for agreement in the Council of Ministers, the debate surrounding the 1981 'Giolitti proposals' should be highlighted.

As suggested above, the principle of concentration proved the major 'sticking point' between 1981 and 1983, but of greater interest from an implementation perspective was the proposal for 'programme contracts'. The promotion of the principle of programming by the European Commission was a response to the lack of effective control it enjoyed under the system of individual project financing. The Commission had argued that it ran the risk of being 'swamped by individual project applications' as the ERDF expanded, unless there was significant change and simplification of the administrative procedure' (House of Lords 1982: xiv). It therefore proposed a system of programmes which would take the form of a 'contract' with the member state concerned. Article 8.3 of the draft Regulation set out the information the Commission would look for in a programme before giving it the status of a contract:

(i) expected results, where possible in quantified form;
(ii) measures to be taken to achieve these results, together with the implementation schedule;
(iii) plan for financing the programme, making a distinction between Community, national and regional sources of finance;
(iv) designation of the authorities or agencies responsible for implementing the programme and the actions within it;
(v) essential ancillary measures that are taken by the Member State in question and do not benefit from Community financing;
(vi) information showing that Community aid will result in additional financing and, consequently, additional practical measures to promote development of the region covered by the programme contract;
(vii) steps relating to the measures envisaged to protect the environment in the regions concerned;
(viii) arrangements to publicise the provision of Fund assistance, the purpose being to inform potential beneficiaries and the various sections of the economy of the opportunities afforded by the programme and of the role played by the Community (European Commission 1981b: draft Article 8.3).

The member state concerned should draw up a programme according to these guidelines, 'in close association with the authorities concerned', and then submit this to the European Commission. The latter would then assess the proposed programme for consistency with the Regional Development Programmes and in respect of 'its contribution to attainment of the Community's regional objectives and priorities' (ibid.: draft Article 9.3). If the Commission considered that the programme could receive assistance from the Fund, it would inform the member state, adding its own observations on the programme. The document itself would be finalised by the common consent of the European Commission and the member state. Draft Article 9.4 explained that 'a programme which becomes in this way the subject of an agreement between the

Commission and the Member State is considered to be, under the terms of the present regulation, a programme contract'. It was further suggested that, following a three-year transition period, all quota-section aid would be allocated through programme contracts.

The UK government agreed that programme contracts would reduce the administrative burden on the European Commission, but only by transferring the burden to member state governments (House of Lords 1982: 1, 12). Furthermore, one Department of Industry official pointed out that the formal, legalistic flavour of the word 'contract' alarmed member states:

> We find it difficult to see how the principle of a legal contract can apply in these circumstances, particularly, for example, when one of the parties to the contract has to undertake to implement a three-year programme when the other party to the contract, that is, the Commission, does not have the power to guarantee more than a year's funds for the programme in advance. This feeling is widespread in other Member States, also, and our impression is that the Commission is tending to move away from the notion of a legal contract between the Member States towards something - an arrangement, an agreement, if you like - that would be more appropriate to the uncertainties of Community funding (House of Lords 1981: 12).

A Department of Environment official continued by highlighting the tension between the objective of programming and the UK's 'real' objective:

> I would like to add, on programme contracts, that the Commission's proposals are not at all clear as they stand, and there are, for example, a number of very onerous information requirements in the proposals as they are drafted. What concerns us is how far these requirements, and the ability of the Commission and other Member States to keep insisting on their fulfilment, will prevent us from achieving *our main objective of securing returns to the United Kingdom from the Fund* [emphasis added] (House of Lords 1981: 12).

These statements have been reproduced in full because, although the contractual requirements proved too demanding for the member state governments at that time, the 'Community Support Frameworks' agreed after the 1988 Structural Fund reforms (examined in the following chapter) bear a striking resemblance to the 'programme contract' proposal.

The proposal to 'promote experimentally' a co-ordinated use of Community financial instruments for structural purposes within the framework of *Integrated Development Operations* (IDOs) should also be noted. On 21 March 1979, the Commission had adopted a number of guidelines for integrated operations, designed to combine the use of ERDF, European Social Fund and EAGGF Guidance Section resources with other Community financial instruments (such as European Investment Bank and European Coal and Steel Community loans) in specific regions.[19] In the words of the Commission, such operations comprised 'a co-ordinated package of public and private measures and investments' with the following characteristics:

(i) they relate to a limited geographical area suffering from particularly serious problems associated in particular with under-development or with industrial or urban decline and likely to affect the region in question;
(ii) the Community, through the combined use of various structural financial instruments, and the national and local authorities in Member States, contribute in close association to their implementation (European Commission 1981b: draft Article 29).

To this end, experimental IDOs had been set up in the cities of Belfast and Naples, and each was run by a steering committee comprising relevant Commission, national, regional and local interests. The Giolitti proposals suggested that these operations should be extended to other regions, but that 'due to the complex issues involved in putting them into practice, [they] should be launched in a relatively limited number' (European Commission 1981b: 8).[20] It has been suggested that the IDOs constituted 'the first attempt by the Community to consult in advance with national and regional interests how the range of Community resources may be deployed in areas which are both seriously disadvantaged but of a size and situation which makes them natural centres for development' (MacLennan 1981: 26).

As negotiations on these proposals unfolded in the Council of Ministers in 1982, the points of disagreement 'closely mirrored the discussions of EC regional policy throughout the 1970s' (Wallace 1983: 96). After almost two years of stalemate in Council on the proposals, the European Council meeting at Stuttgart in June 1983 made a call for the European Commission to review the effectiveness of the Community's Structural Funds. As a first step, the European Commission withdrew its October 1981 proposals for review of the ERDF, and published new proposals in November 1983 (European Commission 1983). Mathijsen has described the Commission's interpretation of the Stuttgart Summit request in the following terms:

[19] Bulletin EC 3-1979, point 2.1.57.
[20] The Commission also proposed that, to facilitate the implementation of such complex operations, a 10% premium should be payable towards the costs of measures located within the framework of an IDO. In other words, a project funded within an IDO should receive a 10% higher contribution from the Community funds than individual projects outwith such frameworks.

> I would like to point out what motivated the Commission to modify its Regulation - because we have a Regulation that works, most people are more or less satisfied with the way it works, but we wanted to modify it. So why did the Commission want to modify the existing Regulation? I think the answer is that we found after the more or less famous Stuttgart European Council meeting when the Commission was asked to examine the possibilities of enforcing a greater efficiency of the various structural funds, the Commission interpreted this greater efficiency as Community efficiency, not just efficiency in a bookkeeping way or from an administrative point of view, but how to give it greater Community efficiency, how to make sure that the funds we were administering were being used to further Community objectives.... we thought we should give it a more Community outlook, a more Community function (House of Lords 1984: 136).

It would be mistaken to view the November 1983 proposals as a major back-down by the European Commission on all the principles underlying the 1981 package. Rather, the second package of review proposals 'can be seen as a skilful re-drafting of the Commission's underlying objectives' (Mawson & Gibney 1984: 47). Mawson et al. have elsewhere indicated that the revised proposal was primarily an attempt to overcome the contentious issue of concentration (1985: 42). The proposals put forward by the Commission in November 1983, four months after the Stuttgart summit meeting, therefore represented a continuation of the original Giolitti proposals in several key ways. The proposal to retain, and provide a formal legal basis for Integrated Development Operations remained. The new emphasis on mobilising indigenous economic potential was reaffirmed. Similarly, the commitment to strengthening programming procedures remained, although all reference to 'programme contracts' was dropped. The term 'contract' had alarmed the UK and other member state governments, and had therefore been dropped by the Commission. As suggested above, however, the de facto contractual nature of the system of programming ultimately introduced resembles the original 1981 proposals.

The area in which the second set of proposals did represent a back-down by the European Commission was over the principle of concentration. Following the stalemate of the previous two years, it was proposed that all member states would, after all, receive a share of the Fund. However, the distinction between the quota section and the non-quota section of the Fund should be abandoned. Rigid national quotas were to be replaced with flexible quota ranges, so-called 'quantitative guidelines'. In effect, the

Commission proposed that each member state should receive a flexible ERDF quota allocation, indicating the upper and lower limits to the amount to be allocated. The ability of member states to reach their maximum allocation would depend upon the extent to which they submitted programmes and projects in conformity with the Commission's regional development objectives. The average ERDF allocations would, however, remain approximately the same as the original fixed quotas.[21] It should be noted, however, that the sum of the lower limits amounted to over 80% of total ERDF resources, thereby constraining the margin of flexibility for the European Commission.

The debate surrounding the two sets of proposals submitted by the European Commission reveals the underlying fault structure of the regional policy edifice laboriously constructed over the preceding years. The Commission sought to increase its discretion over the deployment of resources by promoting the key principles highlighted at the start of this chapter. As shown above, this proposed re-direction of the ERDF to regional development purposes would have threatened member states' ability to control the operation of the ERDF process simply as a mechanism for redistribution. The Commission's own desire to move the Fund from this compensatory function was apparent in the guidelines it had submitted in July 1981, when it stated that 'the Commission considers that the moment has come for the Fund to pass from work of a mainly book-keeping nature to that of conceiving, promoting and programming, that is to say a more active role' (European Commission 1981b: 5).

Contemporary accounts reflect the tension between the potential passive and active roles for the European Commission in the ERDF process. Mawson et al., in their comprehensive account of the development of the ERDF, wrote of the Commission proposals for reform of the early 1980s that:

> From the perspective of the Commission the main objective was to alter the ERDF in such a way that the Commission's regional responsibilities were to evolve from those of a financing body to those more clearly identified with a European-wide regional development agency. In other words the object was to break away from the tight national control of the policy towards a genuine supra-national European programme of action (1985: 37).

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[21] In order of the highest allocation to the lowest, the lower limits and upper limits (in terms of percentage share of the ERDF) proposed by the European Commission in 1983 were as follows: Italy 30.17 to 42.59; United Kingdom 20.23 - 28.56; Greece 11.05 - 15.60; France 10.44 - 14.74; Ireland 5.05 - 7.13; Germany 3.55 - 4.81; Netherlands 0.95 - 1.34; Belgium 0.85 - 1.20; Denmark 0.81 - 1.14; Luxembourg 0.06 - 0.08 (European Commission 1983).

Underlying both sets of proposals presented by the European Commission in these years was the desire to carve out an active role for itself in the process.

Helen Wallace sought to place this tension between the European Commission and member state governments over the operation of the ERDF in the context of wider theories of EC policy-making. She suggested that the ERDF reflected 'a fairly typical pattern of Community policy-making: a familiar tussle between the member governments and the Commission over whose influence should predominate; the encapsulation of crucial stages of decision in the Council of Ministers and frequently with adjudication by the European Council; and a set of detailed rules and modalities which fell far short of common policy and consisted rather of a modest increment to national regional policies with the locus of operation remaining fairly firmly in the control of national governments' (1983: 96). Consequently, 'by no stretch of the theorist's imagination could the story of the ERDF vindicate the approach of the functionalist or neofunctionalist' (ibid.: 97). National civil servants and ministers had remained central to the whole process. There had been practically no scope for the involvement of non-governmental lobbies, whether regional lobbies or other pressure groups, although they had tried hard to exert their influence (see Butt Philip 1982).

Nevertheless, Wallace also suggested that a starkly intergovernmental interpretation of the ERDF would provide a similarly misleading account of the way in which the Fund had evolved. The role of the Commission throughout the evolution of the ERDF was far from negligible. A simple focus on the successive back-downs of the European Commission over the principles would fall into the intergovernmentalist trap of failing to look at either the longer term process, or the Commission's dogged promotion of the key principles at every opportunity for reform. On the contrary, 'as the propagandist of a more ambitious approach it has succeeded cumulatively and incrementally in wringing from member governments more extensive commitments to some responsibility for the EC over regional policy than they would have readily conceded' (1983: 96-97). This interpretation accords with the analysis presented by Mawson et al., and already mentioned above, that the November 1983 proposals did not represent a major back-down by the European Commission over the original Giolitti proposals. Rather, they argue that 'far from presenting before Council a set of conciliatory proposals which responded to previous criticisms, the second round with some reservations tended to heighten many of the issues that had surfaced previously' (1985: 50). The following sub-section therefore considers the new Fund Regulation as it was eventually accepted.

3.3.5 *The 1984 ERDF Regulation*

The new Regulation was agreed at the Foreign Affairs Council[22] on 18-19 June 1984 and came into effect on 1 January 1985. Mawson et al. have attributed the relatively quick acceptance of the new Regulation, after such a long stalemate, to the fact that imminent European Parliament elections offered the prospect of a fresh parliamentary lobby (1985: 52). There was therefore an incentive to reach a rapid conclusion following almost three years of negotiations. It should also be noted that, although the 1984 Regulation closely resembled the Commission's November 1983 proposals, there were some differences. The following analyses the advances made by the European Commission on the principles of concentration, programming and co-ordination, as well as with respect to the balance between infrastructure and industrial projects and the emphasis given to indigenous development strategies. The extent to which the 1984 Regulation represented a 'major revision of EC regional policy', as suggested by Armstrong (1985: 319), is therefore examined by considering the evolution of several of these key principles.

By the mid 1980s, the ERDF was distributing funds each year seven times the value in cash of terms of the amount distributed in the first three years of its existence (House of Lords 1984: xii). It was still widely suggested, however, as it had been since the creation of the Fund, that the modest sums devoted to the ERDF were unlikely to have any significant impact on regional performance levels unless the resources were concentrated in the most disadvantaged regions. With regard to the principle of the concentration of resources, however, the new Regulation represented only a minor advance on previous practice. It abolished the erstwhile distinction between the quota and non-quota sections of the ERDF, replacing the system of fixed quotas with a system of 'indicative ranges' along the lines suggested in the November 1983 proposals. For example, the UK's indicative quota range was set at 21.42% to 28.56% of the Fund.[23] The ranges indicated for each member state applied to the total amounts to be allocated over a

[22] The absence of a specific Council of Ministers for ministers with responsibility for regional policy testifies to the fact that the development function of the ERDF was of secondary importance (cf. House of Lords 1984: xxxv).

[23] The indicative quota ranges set by the 1984 ERDF Regulation varied slightly from the 1983 Commission proposals. Agreed under the French Presidency of the Council in May 1984, the lower and upper limits (in terms of percentage share of the ERDF) were as follows: Italy 31.94 to 42.59; United Kingdom 21.42 to 28.56; Greece 12.35 to 15.74; France 11.05 to 14.74; Ireland 5.64 to 6.83; Germany 3.76 to 4.81; Netherlands 1.00 to 1.34; Belgium 0.90 to 1.20; Denmark 0.51 to 0.67; Luxembourg 0.06 to 0.08 (Mawson et al. 1985: 52). Comparison with footnote 31 above reveals that the lower limits for eight of the then ten member states were raised (the exceptions being Denmark and Luxembourg), and that only the upper limits for Ireland and Denmark were reduced with respect to the Commission's November 1983 proposals.

three year period, so that it was possible for a member state to receive an allocation outwith these ranges in any one year (Croxford, Wise & Chalkley 1987: 28). The ability of any member state to take up resources would depend on that state's ability to submit eligible projects and programmes. The sum of the minimum allocations which would be reached at the end of the three year period, however, totalled around 88% of the ERDF, leaving only 12% to be spent at the discretion of the European Commission. It was nevertheless noteworthy that the total of all the upper limits of the quota ranges was greater than 100% of the Fund, so that, if it was over-subscribed, the Commission would decide on which expenditure should receive priority.

The new Regulation provided for a greater degree of programme financing than in the past, but the principle of programming had been diluted with respect to the November 1983 proposals. As Mawson et al. point out, the preamble to the 1984 Regulation emphasised the experimental nature of such measures when it stated that 'whereas to improve the impact of ERDF assistance: it is necessary to ensure, *on a trial basis*, that part of the Fund's resources are used in the form of programmes [emphasis added]' (1985: 53). Moreover, the original proposal to distribute 40% of ERDF aid in the form of programmes within five years was replaced with the less optimistic target of 'at least 20%' of the Fund being spent through programmes by the end of 1987. In giving evidence to the House of Lords Select Committee on the European Communities in 1984, Pierre Mathijsen stated with confidence that additionality would be easier to ensure in the framework of a programme than under a system of individual project financing, although the precise reasons why this should be the case were not made clear (House of Lords 1984: 141). According to Redmond and Barrett, irrespective of the implications with respect to additionality, 'the main driving force' behind the Commission's desired shift to programme financing was basically 'the Commission's view that programmes are a better means of co-ordinating the use of its limited resources in a more rational and cost-effective way' (1988: 20). Although project financing was retained as the normal mode for deploying resources, programme financing was promoted in three forms under the 1984 ERDF Regulation: *Community Programmes* (CPs); *National Programmes of Community Interest* (NPCIs); and *Integrated Development Operations* (IDOs). These are of considerable relevance to the case study of Western Scotland and should be considered in turn.

In many respects, *Community Programmes* represented a continuation of the programmes introduced under the previous non-quota section of the ERDF. Although the non-quota section as such ceased to exist, the European Commission would allocate a proportion of each member state's indicative quota in the form of Community

Programmes. These were defined under Article 7 of the new Regulation as 'series of consistent multiannual measures directly serving Community objectives and the implementation of Community policies'. Such programmes would be initiated by the European Commission, would normally concern regions in more than one member state, and need not be limited to the regions eligible under the domestic regional policies of the member states. As De Witte pointed out at that time, the 'Community character' of such programmes was 'reinforced by one major change with regard to the non-quota actions: the framework of these programmes has no longer to be adopted in the Council by a unanimous vote, but by a qualified majority' (1986: 426). In essence, CPs therefore facilitated a continuing Commission involvement in the preparation of programmes to address regionally focused sectoral problems. The first two Community Programmes, announced in 1986, were 'STAR' (Special Telecommunication Action for Regional Development) and 'Valoren' (Valorisation of Endogenous Energy Potential). Later CPs promoted by the European Commission focused on regionally based sectoral decline, as a direct follow-on from early non-quota section programmes: 'Renaval' financed the same types of operation as the non-quota programme for regions suffering decline in the shipbuilding industry, while 'Resider' continued assistance for regions experiencing heavy decline in the steel industry (Redmond & Barrett 1988: 26).

National Programmes of Community Interest, introduced under the 1984 Regulation, were to be prepared by national governments in collaboration with regional actors. They would therefore be determined by national priorities and, unlike Community Programmes, would be restricted to the areas eligible under domestic regional policy. However, NPCIs would have to reflect measures of significant 'Community interest', although this concept was 'relatively ill-defined in the Commission's proposals' (Mawson & Gibney 1984: 47). As with the previous project financing system, the initiative rested with the member state, which was, however, expected to formulate a coherent investment programme. De Witte summarised the intention that lay behind NPCIs:

> The distinguishing feature of these programmes, compared to the existing system, is therefore, not that they allow for more Commission discretion, but that they are formulated in more global terms. Indirectly, one hopes of course, that the gradual substitution of individual projects with more comprehensive programmes will increase Community control on the use of the Fund and attenuate some of the shortcomings of the old system such as the lack of co-ordination, additionality and visibility (1986: 427).

The reality of National Programmes of Community Interest, as shown in the analysis of the NPCI for Glasgow in chapter 5, was far more prosaic. As Redmond and Barrett suggested, 'some early applicants took the view that NPCIs were simply collections of loosely related projects which would have been submitted individually under the previous ERDF regulation' (1988: 21).

The third type of programme promoted under the 1984 ERDF Regulation, *Integrated Development Operations*, were described in the previous sub-section. Having previously existed with no formal legislative basis within the ERDF Regulation, IDOs were provided a basis under Article 34 of the new Regulation. This same Article also stated that 'investments and measures ... which form part of an integrated development approach may be accorded a priority treatment'. The difference between Community Programmes and Integrated Development Operations was summarised clearly by De Witte in terms of internal Commission politics. Under IDOs there was a joint use of the Community's Structural Funds: the European Social Fund, administered by Directorate-General V (Employment, Industrial Relations and Social Affairs), and the Guidance Section of the Agricultural Fund, administered by Directorate-General VI (Agriculture) as well as the ERDF. These Directorates-General might therefore have 'objected against the forced grouping of all interventions in a "Community Programme" under the Regional Fund' and hence against conceding a degree of *de facto* control to DG XVI (1986: 432). As Redmond and Barrett have pointed out, however, the integrated approach increasingly became the European Commission's favoured technique of intervention in regional economic development, to the extent that Article 130D of the Single European Act ultimately required amendments to the Structural Funds (ERDF, ESF and EAGGF) in order to 'co-ordinate their activities between themselves and with the operations of the existing financial instruments' (1988: 27). This further integration of the various Structural Funds is examined in chapter 4, but some consideration should first be given to the other main aspects of the 1984 Regulation.[24]

[24] The creation of the *Integrated Mediterranean Programmes* (IMPs) should be noted at this point. At the European Council meeting in Dublin in December 1984, Greece threatened a veto of Community enlargement (to include Spain and Portugal) unless it received some financial compensation for the perceived economic threat the accession of these southern European countries would bring. At the subsequent European Council meeting in Brussels in March 1985 the IMP initiative was agreed to compensate Greece, Italy and France, the countries most likely to experience the economic consequences of the new enlargement of the EC. Although not of direct concern for this study, it should be noted that the IMPs represented a further development of the integrated approach as they were intended to combine the resources of all the Structural Funds within integrated programmes (De Witte 1986: 435-436; Buresti & Marciani 1991; Bianchi & Grote 1991).

These three forms of programming should not be confused with the Regional Development Programmes (RDPs). In particular, although they were both submitted by the member states, NPCIs and RDPs were designed to serve different purposes. The RDPs, according to Article 2 of the 1984 Regulation, were still to be drawn up by each member state 'as an overall outline of its regional policy' (De Witte 1986: 427). They were then to be submitted to the European Commission and the Regional Policy Committee for the purposes of policy *co-ordination*. To this same end, the role of the Periodic Reports on the economic situation of the regions across the Community was re-affirmed. The three forms of programming outlined above were, by contrast, intended as coherent sets of regional development actions addressing the principal economic problems of given areas.

With regard to the participation of local and regional authorities in the ERDF policy process, such actors had long supported efforts by the European Commission to strengthen their involvement. Mawson and Gibney explained the underlying reasons for this 'enthusiasm' of local actors to participate in the formulation and administration of regional policy:

> In recent years local authorities have developed considerable expertise in various aspects of infrastructure and local economic planning and certainly possess the local knowledge and administrative capacity to prepare specific types of programme.... Within local authority circles there is a view that given this experience, a more direct relationship with Brussels through the programme approach and measures such as those designed to foster indigenous development potential, would provide the opportunity to develop policies more specifically tailored to the needs of individual areas than dependent on "broad-brush" national regional policies as at present (1985: 137).

Despite this desire to be involved, and the European Commission's support for their involvement, the 1984 Regulation provided very little scope for advance on previous practice. De Witte lists some of the many 'exhortations to the Member States to allow for wider participation of regional and local authorities', but concludes that 'no concrete guarantees for such involvement were given through the ERDF Regulation' (1986: 430). Not only would the Regional Policy Committee and the ERDF Fund Management Committee continue to consist of member state representatives, but there was also 'some diminution of the role of local authorities in programme elaboration, in response to pressure on the part of certain Member States *vis-à-vis* the involvement of local authorities in the process' (Mawson & Gibney 1984: 52).

There were two further, related aspects of the 1984 Regulation that should be highlighted. Firstly, there was a commitment to promote 'productive investments' as well as basic infrastructure. Secondly, there was a commitment to support measures aimed at the promotion of 'indigenous development'. Both of these approaches featured in earlier Commission programmes under the non-quota section and were to be given higher profile through the new forms of programming. When the Director-General of DG XVI (Mathijsen) spoke of his frequent disagreement with the 'philosophy of the Member States' regarding regional development policy, he outlined the Commission's new approach to regional development (House of Lords 1984: 142). The conceptual distinction between 'policy core' and 'policy periphery' highlighted in the introductory chapter is helpful in this instance. Since the early 1980s, as the Commission's role in the process gradually increased, there has been a considerable difference in approaches with regard to the 'periphery' of European regional development policy. While the European Commission increasingly sought to promote 'productive investments' at the expense of basic infrastructure, and endogenous development as opposed to the attraction of inward investment, member states (and foremost among them the UK) sought to maintain the focus of earlier approaches. The Commission argued that the provision of software at the local level, such as business advisory services, would promote development from within the local economy. The UK central government continued to use the ERDF to support centrally-driven 'hardware provision', with the apparent aim of influencing the location of growth activities. There was therefore considerable conflict over the nature of the policy periphery, as shown below in the case study of Western Scotland.

The European Commission's preference for 'industrial' over 'infrastructure' projects at the time of the 1975 ERDF regulation has already been noted. The ceiling of 70% of ERDF resources going to infrastructure projects in the Community as a whole was an early concession by the member state governments to the European Commission's belief that infrastructure projects were generally of less importance in the conversion of all but the severely structurally underdeveloped regional economies, and would no doubt have gone ahead anyway without ERDF assistance if they were particularly necessary.[25] Despite the 70% ceiling on infrastructure expenditure, however, the annual report on the ERDF for 1982 revealed the continuing bias in favour of infrastructure within the member states, with 87% of ERDF resources spent on such projects and only 13% on industrial investment projects. In 1983 the proportion devoted to infrastructure projects

[25] Moreover, as Williams, Williams and Haslam point out, infrastructural improvements are likely to have 'complex two-way effects' as they make it easier for strong economies to export to weaker regional economies as well as vice versa (1991: 338).

rose further to 89% (House of Lords 1984: x). 'In the light of experience', therefore, the requirement to devote ERDF resources to industrial development was reduced in the 1984 Regulation, with Article 35 simply requiring that 'the Member States, in submitting their applications, and the Commission, in administering the ERDF, shall endeavour to ensure that an appropriate proportion (if possible 30%) of the Fund's resources is allocated to investments in industry, the crafts and the services sector' (Comfort 1988: 542).

Several authors claimed that DG XVI was influenced by the changing emphasis in regional development literature in those years (De Witte 1986: 429). According to Mawson et al., 'in advocating the support of measures to encourage indigenous development potential, the Commission regarded itself as being in the forefront of developing new approaches to regional development, at a time when traditional infrastructure measures such as road-building and advance factory construction were becoming less effective, with little mobile industry available to attract to declining areas' (1985: 40-41). These claims seem to be substantiated by Mathijsen's evidence to the House of Lords Select Committee on the European Communities (House of Lords 1984: 142). Not only was it the case that foreign investors in a disadvantaged region were usually the first to close down their operations and pull out during an economic recession, but in the early 1980s there were simply more regions actively seeking to attract a decreasing pool of potential inward investment (cf. Clout et al. 1989: 201; Roberts, 1989; Wadley 1986). Ensuring that the ERDF actually financed software measures was more difficult than securing a mere commitment to do so in the Regulation.

Comfort has explained the reasons why it proved difficult to reach a level of 30% of the Fund's total resources for allocation to so-called 'productive investments'. Firstly, the application procedure for infrastructure projects was generally less demanding. Secondly, during an economic recession and periods of low growth there were less suitable industrial projects that could be submitted. Thirdly, assistance to industrial projects often has to be decided on and disbursed very quickly if a project is to go ahead (1988: 542). Moreover, national and regional actors responsible for the implementation of development strategies in the Community's most seriously disadvantaged and structurally underdeveloped regions argued convincingly that a basic level of infrastructure provision was a prerequisite for modernisation of their regional economies. However, this line of argument could not be used by all member states as it was not the case that all development regions were structurally underdeveloped and lacking in basic infrastructure:

> Even for Member States with a long industrial tradition and a well-developed policy of aid to industrial investment in less-favoured regions, it has proved easier in many cases to submit applications for infrastructure projects. In the UK, for example, 72.4% of ERDF receipts went to infrastructure even though national regional policy is conceived exclusively in terms of the development of industry and services, while no special criteria exist for favouring infrastructural improvements in the so-called Assisted Areas (Comfort 1988: 543).

Despite the apparent difficulties, and despite the fact that those industrial investments which did take place primarily reimbursed member state governments for their domestic industrial incentive schemes, the Commission continued to pursue a higher priority for 'productive investment'. The Commission's non-quota programmes, and the later Community Programmes, sought to give a greater weight to such investment by subsidising the provision of services to small businesses, such as advice on marketing or technology transfer (Comfort 1988: 543; Redmond & Barrett 1988: 23).

A closely linked aspect of the 1984 regulation was the emphasis on 'internally generated development'. In the early 1980s, regional development policy *from below* was increasingly replacing policy *from above*, as the emphasis shifted from trying to attract inward investment to promoting the development of the local business base from within. This shift in emphasis was attractive to the European Commission for the obvious reason that it did not want to see a competitive over-bidding between the Community's regions for scarce inward investment that might simply be displaced from other regions of the Community. In other words, the European Commission placed increasing emphasis on the need to stimulate new economic development within problem regions, avoiding simple transfers of development activity from one region to another (Croxford, Wise & Chalkley 1987: 30). Articles 15 and 16 of the 1984 ERDF Regulation therefore constituted a separate chapter on 'measures to exploit the potential for internally generated development of regions'. Thereby, small and medium-sized enterprises (SMEs) should be provided with facilities 'enabling them to expand their activities and to obtain access to new technology', as well as to 'facilitate their access to the capital market'. The reasons for the opposition of the UK central government to such 'Article 15 measures' are addressed in the case study of Western Scotland.

This analysis of the provisions of the 1984 Regulation has provided an essential analysis of the issues, principles and points of conflict between the European Commission and the member states which re-emerged in the wake of the subsequent Structural Fund reforms and shaped the implementation of programmes in the late 1980s and early 1990s. Contemporary accounts of the 1984 Regulation and its subsequent operation maintained the largely pessimistic tone that characterised the majority of early academic accounts of the ERDF. Wise and Croxford, for example, suggested that the ERDF remained 'an essentially "cosmetic" policy instrument', camouflaging 'the lack of serious Community effort to reduce regional inequalities' (1988: 164). Basing their assessment on four sets of evidence (the small size of the ERDF in terms of the overall Community budget; the lack of additionality; the failure to concentrate scarce resources; and the continued scattering of assistance across unconnected projects as opposed to the deployment of co-ordinated development strategies), they concluded that the ERDF was simply a 'token gesture', a product of the EC's intergovernmental political system (ibid.: 172). Mawson et al. likewise argued that the development of an active regional policy at the Community level had to be 'interpreted within the context of the evolution of the Community as a whole and in particular in terms of the internal decision making process, or "Community method" by which conflicts between member states are resolved' (1985: 20). This largely intergovernmental account conflicts with their own evidence to the extent that they also emphasise the Commission's refusal to back-down completely over many of the key principles it sought to apply to the operation of the Fund (ibid.: 50). The choice of emphasis might as well have been on the incremental changes wrung from the member state governments over the years, to paraphrase Wallace (1983: 96-97). However, Mawson et al. rightly point to the fact that the *implementation* of those 'institutional or policy innovations' which were wrung from the member states is as important as their acceptance in the first instance:

> ...The nature of the relations between the national governments and Community institutions is such that the successful implementation of the innovations depends on the consent and commitment of the very member states whose behaviour the innovations are supposed to regulate in the first place. This clearly presents a formidable obstacle to fundamental policy changes (1985: 57).

The key theme of the vast literature on policy implementation reviewed in chapter 2 above is that focusing on legislative changes, at the neglect of focusing on the way in which those changes are interpreted by the actors who actually implement policy, exaggerates the extent to which legislative change alters actions. Chapter 3 has so far analysed the evolution of the ERDF up to the late 1980s in terms of general approaches to EC policy-making. Before examining the fundamental changes ushered in by the Structural Fund reforms, when the European Commission succeeded in strengthening its long-cherished principles of concentration, programming, partnership and additionality (at least in terms of the Regulations), some consideration should be given to those early studies that placed specific emphasis on the implementation of ERDF actions.

3.4 Studies of the Implementation of ERDF Actions: Top-Down Programming or Bottom-Up Adaptation?

As stated in the introduction to this chapter, there are very few general accounts of policy implementation in the EC. One legal-administrative study of the implementation of Community policies has drawn attention to this gap in the literature:

> Although most political analysis of intra-Community processes has tended to focus on policy-making, we feel that the post-decisional phase has been unjustifiably neglected. We would suggest that the question of implementation and application of policy, once adopted, is no less important, and that any erosion of the *acquis* through non-implementation or wrongful application is as dangerous to the Community as the failures of the decision-making process itself (Krislov, Ehlermann & Weiler 1986: 5).

The authors provide an account of 'compliance (and non-compliance) with, and enforcement of, transnational law' (ibid.: 59-88). The 'non-compliance paradox' is identified as the phenomenon of 'the growing incidence of non-compliance despite the overall control which the Member States exercise over the decision-making process' (ibid.: 77). General explanations for this paradox are sought not just in the obvious fact that the European Commission rarely implements Community policy, but also in the fact that directives have become too detailed, that experts co-opted in the policy formulation stage pay more attention to the technical than the political aspects of various proposals, that the preparatory phase of policy-making is overly secretive, and that directives may simply be technically faulted. Added to these is the fact that a proposal may simply have been accepted as part of a package deal in the Council of Ministers, with little intention by the member state involved of devoting the necessary commitment to implement the policy.

The large comparative study edited by Siedentopf and Ziller (1988) similarly focuses on compliance (and non-compliance) with seventeen EC directives. As they are binding in terms of the result to be achieved but leave to the member state concerned the choice of the method and form by which to achieve those results, directives, as a form of Community law, are 'a new kind of act of legislation without clear precedents in the legal systems of the Member States' (ibid.: 8). Like the study conducted by Krislov, Ehlermann and Weiler (1986), the project led by Siedentopf and Ziller focuses primarily on observance of Community law and hence on the legal apparatus within member states.

Policy analyses focusing on the political aspects of the implementation of EC policy remain rare. Two early studies of the implementation of EC policies emphasise the existence of more than one policy-making level. Feld's analysis of the implementation of the Common Agricultural Policy provided an early reference to 'two-tier policy-making' in a Community context and the importance of multilevel interaction between European-level institutions, national governments and organised interests (1979: 336). Laffan's analysis of the implementation of European Social Fund actions similarly focused on policy linkages ('networks') between different policy-making levels and hence on the importance of communication, forms of control and evaluation mechanisms (1983). The latter study concluded that legalistic accounts of hierarchical authority failed to capture the subtlety of the political process of policy implementation in the EC, yet the implementation of EC policies remains a marginal concern in the policy implementation literature.

An early attempt to study the politics surrounding the implementation of ERDF actions in the UK, as opposed to interactions at a supranational level, was made in a PhD dissertation by Christopher Preston in 1984. He presented a comparison of the implementation process in Scotland, England and Northern Ireland between 1975 and 1981 and sought to address the multi-tier dimension of political implementation by analysing the role of sub-state actors. The study adopted a bottom-up approach to emphasise the implementation of ERDF actions as a process of bargaining between conflicting interests. Preston argued that six constraints determined actual behaviour in the implementation of EC regional policy:

(i) the initial definition of implementation stressed technical and administrative constraints and failed to recognise that the problems had their roots in the larger policy process in which there was no agreement on policy goals;

(ii) the implementation structure was composed of complex, multi-organisational linkages;

(iii) the policy was modified, at times substantially, by the conflicts of interest and bargaining between the affected parties at all levels of government;

(iv) the outcome of such bargaining hinged on the pre-existing distribution of power, most notably the pre-eminence of national governments both domestically and at the supranational level; however,

(v) the distribution of power is not static, the Commission is itself a political actor maintaining principles and interests different from the existing balance of national interests, and consequently national perceptions and positions can be redefined; but,

(vi) in seeking to redefine national perceptions and positions the Commission has to balance: (a) its own initiatives with the interests, and its need for the agreement, of member states; and (b) uniformity of policy with legitimate national and subcentral variations (Preston 1984: 25-39).

Constraints (i), (ii) and (iii) as set out above constitute a useful set of early observations on the implementation of the ERDF. The lack of agreement on policy goals has been stressed anew in this chapter with the focus on the ambiguity surrounding whether the ERDF served primarily a development function or a compensatory function in the early years of its operation. Moreover, the nature of the policy field itself determines the need for 'multi-organisational linkages' and hence opens the potential for opportunistic behaviour and conflicts of interest in the implementation phase. Constraints (iv), (v) and (vi), however, reflect Preston's choice of central research question. This was framed in terms of the somewhat obvious argument that 'implementation of the Fund has been constrained by the unwillingness of central government to relinquish control of regional policy to the EC' (1984: i). His general conclusion was therefore that European regional policy had 'remained an intergovernmental rather than a supranational policy with limited opportunities for the Community institutions to establish direct links with regional interests', and hence that reform of the ERDF required fundamental change in the balance of political power away from national governments to Community institutions (ibid.: i-ii). This broad-brush conclusion reflected contemporary accounts of the ERDF as lying near the intergovernmental end on a perceived continuum between supranational and intergovernmental styles of policy-making, and by extension, policy implementation.

Another attempt to use the policy implementation literature to assess the utilisation of Structural Fund expenditure within a member state was the chapter in '*Policies into Practice*' by Coates and Wallace devoted to European Funds and 'how they are spent in the UK' (1984). The introductory chapter to the book set out Hyder's 'evolutionary model', considered in chapter 2 above, with the intention that all subsequent chapters would use this model. In fact, Coates and Wallace primarily described the interdepartmental division of responsibilities within UK central government and looked at all three Structural Funds as well as the Common Agricultural Policy Price Guarantee Section. The decision to spread the analysis so widely across these separate policy instruments reflects the difficulty of accessing data on the treatment of Community expenditure within the member states. Moreover, the fact that Community expenditure on regional development was often used simply to replace domestic expenditure that would have taken place anyway meant that no 'sensible appraisal' could be made of the delivery of Community regional policies nor of their 'cost-effectiveness or impact on economic development': if the process results in the '*status quo ante*' then it is nothing but a 'convoluted rigmarole' (1984: 177-8). It is accepted herein that the apparent reluctance of many member states to respect the principle of additionality is a constraint on the operation of the ERDF. However, this constraint has been acknowledged in the analytical framework (in chapter 4) by examining the extent to which the European Commission has been able to pursue the principle of additionality since 1975. By contrast, Coates and Wallace's suggestion that the lack of additionality and the level of organisational complexity inhibits analysis is somewhat defeatist (1984: 177-8).

The complexity of the implementation structures for Structural Funds policy not only inhibited academic analysis, but also presented practical difficulties for local actors involved in that structure. Preston and Hogg, in their work on Integrated Development Operations policy (1988; 1990), adopt the perspective of local authorities and identify the confusion surrounding the implementation of IDO programmes. One senior government official interviewed by the authors suggested that IDO policy was like 'a beast coming out of the mist', while Preston and Hogg themselves added that 'the general outline of an IDO is clear, but it is only as the mist disperses that one might see the detail' (1990: 29). The major theme of their research on IDO policy was therefore that there were fundamental problems inherent in the implementation of such policy that had not been fully understood at the policy formulation stage. A key assumption of this study, however, is that such uncertainty is inherent in *all* regional development programmes, and has added significance as a result of the bounded rationality of real actors.

One final study of the implementation of the ERDF that should be noted is Rhodes' analysis of the ERDF in his survey of European policy-making, implementation and 'subcentral' levels of government (1986).[26] He identified five major characteristics of the implementation of EC policies in general in which such subcentral governments are involved:

[26] For Rhodes, 'subcentral government' includes the wide variety of governmental and political organisations (not just regional and local governments) 'within the accepted boundaries of the state which are not central political institutions located in the capital city' (1986: 2).

(i) The EC employs programmed strategies of implementation which, along with a well-developed legal system, seek to ensure uniform and precise implementation and a high degree of compliance with specific tasks.

(ii) There are marked variations between policy areas both in terms of policy content (for example, regulatory versus distributional policies), in terms of politicisation (e.g. routine versus controversial policies), and in terms of hierarchical complexity (e.g. hierarchy versus multi-organisational arrangements).

(iii) EC implementation strategies do not reflect this variety and the Commission is caught on the horns of a dilemma: programmed strategies translate its intentions into practice at the cost of unresponsiveness to local conditions and uneven and slow implementation, whereas adaptive strategies generate considerable slippage from initial objectives. In both cases, EC policy goals are partially realised at best.

(iv) The EC remains dependent on national governments for implementation with limited capacity either to monitor policy implementation or to deploy sanctions/incentives to gain compliance.

(v) Until such time as the national governments are prepared to countenance decentralisation (and hence erosion of their bargaining positions) the EC will be unable to develop its own implementation structures based on direct links with subcentral government and, in search of uniformity, its policies will have the unintended consequence of fostering centralisation within member states (Rhodes 1986: 54-55).

The challenge of implementation for the European Commission is therefore that, as Berman pointed out, 'there is no universally best way to implement policy' (1980: 206). Routinised, regulatory policies may demand programmed implementation while distributive policies demand greater flexibility, 'and yet flexibility increases the possibility of slippage by giving national governments greater opportunities to subvert EC aims' (Rhodes 1986: 55). In order to adopt adaptive implementation strategies, the European Commission would need to overcome the fear of substantial slippage in policy goals, and consequently the following would be required:

(i) an improved monitoring system (possibly with the use of inspecting task forces whose remit extends beyond audit to the 'merits' of particular projects);

(ii) the development of incentive systems (for example, the allocation of a greater proportion of funds to the pool sections of Funds, thereby enabling the Commission to 'reward' governments for selecting projects congruent with EC goals);

(iii) ensuring that the switch to 'programmes' from 'project' approvals as the basis for fund distribution occurs in fact as well as in regulations, thereby enabling the Commission to select projects congruent with EC aims (Rhodes 1986: 55).

Rhodes' analysis, based on Berman's distinction between programmed and adaptive strategies, provides a particularly useful early account of policy implementation in the EC involving sub-state actors. The study might have emphasised, however, that a given policy may evolve over time from a routinised, hierarchically organised policy to involve both a higher degree of controversy and a widening of participatory arrangements. The following chapter of this study suggests that just such an evolution can be identified in the case of the ERDF. It is also suggested in the following chapter that Rhodes' prescriptions for improved monitoring systems, developed incentives and a switch to programmes have all been realised in the context of the ERDF. However, 'slippage from initial objectives' continues to occur.

Following the model of policy implementation as incomplete contracting, it can be argued that partial realisation of EC policy goals may be all that can be realistically expected: the perfectly-fashioned, rationally-constructed regional development programme that allows easy implementation does not exist. Multi-annual development contracts must allow for a degree of uncertainty and responsiveness to local conditions. In other words, programmed strategies must also be adaptive and vice-versa. While a programmed strategy without the possibility of subsequent adaptation would not guarantee the compliance or motivation of local actors, an adaptive strategy without prior programming would run the risk of unco-ordinated chaos. The European Commission may seek to programme a strategy in order to enhance its control over policy implementation, but its need for access to information on local conditions necessitates flexibility. Subsequent chapters examine the dependence of the European Commission on external actors for the provision of such resources and the extent to which uncertainty and the need to allow a degree of flexibility shape the structures through which the ERDF is delivered. Crucially, however, the analysis provided below also considers the development of 'special purpose institutions' and the extent to which the frequency and duration of the relationship between the European Commission and external actors allows a sense of trust to evolve. Early studies of the implementation of ERDF actions neglected such dimensions of the implementation relationship. This is understandable, however, given the limited role played by both the European Commission and sub-national actors in the implementation of ERDF actions between 1975 and 1988, which, as this chapter has shown, was largely dominated by member state central governments.

3.5 Reprise and Summary

This chapter has provided a comprehensive account of the evolution of the ERDF in the period up to 1988 in order to expose the logic of EC regional policy. In doing so, it has detailed the historical development of the Fund, focusing on attempts by the European Commission to increase its role in the financing of ERDF actions. It has been suggested that the key to understanding the evolution of the ERDF lies in recognising the fact that its *real* objectives have always been highly contested. While member state governments viewed the Fund primarily as a budgetary redistribution mechanism, the European Commission (DG XVI) sought to re-shape the operation of the ERDF throughout the late 1970s and early 1980s in order to address the objectives of regional economic development. The reluctance of member states to loosen their grip on the operation of the Fund in these early years led Mény to conclude that EC regional policy constituted a policy process 'nationalised in the extreme' (1982: 377).

It has been shown in this chapter that the ERDF experienced a difficult birth and that it was initially expected to fulfil a *compensatory function* with respect to member state contributions to the Community budget. A protracted and difficult debate between the *demandeurs* (the UK, Ireland and Italy) and the chief paymaster (Germany) in the early 1970s ultimately resulted in the creation of a weak device for financial redistribution in 1975 (Wallace 1977: 144). The underlying logic of the ERDF was made extremely clear by the German Chancellor Schmidt, who said of the new fund at the outset that, although it was 'clothed in a pair of bathing trunks with "regional policy" painted on them', it was still merely a mechanism for redistributing finance between member states (quoted in Bulmer & Paterson 1987: 202). The main contention of the analysis presented above is that this initial political compromise conditioned the evolution of the ERDF as a policy instrument, limiting the extent to which the European Commission was able to fine-tune the instrument to promote regional economic development objectives.

Nevertheless, as March and Olsen remind us, 'programs adopted as a simple political compromise ... become endowed with separate meaning and force by having an agency established to deal with them' (1989: 18). DG XVI consistently and doggedly sought to promote the four principles of concentration of resources, programming, partnership, and additionality in order to move away from arguments of *juste retour* and focus the ERDF on its stated development function. Although progress on these principles up to 1988 was piecemeal, a gradual shift was identified away from the purely compensatory function of the ERDF of the early years. The ERDF of the mid-1980s can best be summarised as a complex political instrument involving highly contested objectives and illustrating characteristics of the 'garbage can' scenario identified by Cohen, March and Olsen (1972; 1976).

This evolution of the ERDF was considered against the backdrop of contemporary theorising on EC policy-making. The neofunctionalist and intergovernmentalist approaches, which may simply be conceptualised as opposite ends of a range of possible contracting arrangements between the member states according to the neo-institutionalist analysis presented in chapter 2, were set out briefly in Section 3.2. Following the disillusionment of the early years, when it became apparent that regional actors remained marginal even in the regional policy field, it was widely argued that intergovernmentalism was the dominant policy-making style in this policy field. Very little theoretical significance was assigned to supranational or regional bodies in the European regional policy process. By contrast, the member states' central governments were deemed practically omnipotent through intergovernmental mechanisms in this field. Those few studies which examined the ERDF specifically from an *implementation perspective* (Coates & Wallace 1984; Preston 1984; Rhodes 1986) similarly concluded that the execution of ERDF actions left little room for discretion for European Commission or sub-national actors.

The early legal provisions of the ERDF Regulation did not enable the European Commission to engage directly in a process of territorial political exchange with sub-national actors. The role of local and regional actors in the formulation and implementation of ERDF actions was minimal. Grants were distributed on an individual project-by-project basis, with the UK central government simply substituting EC expenditure for domestic expenditure, so that there was some confusion in the early years of the Fund as to whether project sponsors should even be informed that their projects had been submitted for support (Coates & Wallace 1984: 174). Those governance structures which were established to facilitate the disbursement of funds (most obviously the Fund Management Committee and the Regional Policy Committee which both met in Brussels) were dominated by member state governments. According to one development agency in the UK receiving ERDF assistance at that time, 'under the present arrangement it is the Government that decides which projects should be forwarded to Brussels, that sits with other Governments on the committees which decide the projects that will be accepted, and is responsible for implementing the assisted projects' (House of Lords 1977: 92). Hence, the increased involvement of sub-national actors analysed in subsequent chapters is a radical departure from early practice.

Examination of the less formal aspects of the implementation of ERDF actions similarly confirms the dependence of the European Commission on central government in the UK in this period. DG XVI's small size (as explained above, a mere seven 'A' grade officials were processing 5,000 project applications annually by the mid-1980s) and the low political salience of the Fund at that time meant that the European Commission was starved of resources in the process of territorial political exchange in which it engaged with central government actors. Although the Commission was hungry for local information and expertise, and was therefore anxious to extend participation in the exchange relationship to sub-national actors for technocratic reasons, central government was relatively successful in performing its role as gatekeeper (Hoffmann 1966). While the UK central government undoubtedly sought to secure a share of ERDF resources, this share was guaranteed by a quota system. Moreover, the Department of Industry submitted no more projects than required in order to draw down the UK's quota, thereby constraining the Commission's ability to express any preference between projects. This lent weight to the accusation that the Fund was not taken seriously in regional development terms and was simply a cosmetic screen behind which the main objective of budgetary compensation was pursued.

Two technical aspects of the Fund's operation, an understanding of which is essential for the case study of Western Scotland, were also explained in this chapter. The first is the introduction in the early 1980s of 'software measures'. While the ERDF had concentrated on infrastructure projects in its first few years, from the early 1980s the European Commission sought to promote a shift in the 'periphery' of regional development policy. In most member states of the EC at that time, domestic responsibility for regional policy was decentralised to regional and local actors, and the instruments of regional development policy shifted from the centrally-driven provision of infrastructure ('development hardware') to locally-driven attempts to improve regional innovation and competitiveness through a variety of supply-side measures ('development software'). The European Commission itself was at the forefront in promoting this shift in the policy periphery, in particular through so-called *Article 15* measures under the 1984 ERDF Regulation. In the UK, however, the shift in policy from 'hardware' to 'software' provision was resisted by central government in the context of the ERDF as it reduced its capacity to treat the Fund simply as a compensatory mechanism. The reason for this lies in the fact that when software measures are undertaken by local authorities, they are generally financed out of revenue accounts and are therefore more difficult for central government to control directly in the short term. This brings us to the second technical aspect of the ERDF's operation explained above, the complexities of additionality.

It is difficult to exaggerate the importance of additionality (the principle that ERDF resources should be additional to, and not a substitute for, domestic resources in target regions) in the operation of the Fund in the UK. The UK's disregard for this principle in the early years of the Fund, alongside other member state central governments, was emphasised above. Chapter 4 shows how the tension between the European Commission and the UK central government over this issue has developed in recent years, while the case study emphasises the importance of non-additionality in shaping the ultimate form of the regional development contract in Western Scotland. The UK government's system of *global additionality*, whereby central ministries claimed to anticipate expected ERDF receipts and incorporate these in public spending totals that were thus higher than they would otherwise have been, was also explained. In addition, it was shown that ERDF grants in receipt of *infrastructure* projects were passed on to local actors, but that the actors could not spend the resources as pre-set *capital spending ceilings* were not raised accordingly. The only benefit to local actors was therefore a short term saving on interest repayments. By contrast, ERDF grants in receipt of *industry* projects were not passed on to the project sponsors. Software measures, which would have been financed out of the revenue accounts of local actors, were simply vetoed by central government. One senior official in Western Scotland at that time therefore concluded that the lack of additionality 'takes the fun away' from the ERDF, reducing the process 'to an expensive job creation programme for paper shufflers; it is apparently seen by the Treasury as this; a very cumbersome way of re-possessing money paid to the EC' (Chorley 1986: 33).

Central government officials in the early 1980s similarly expressed the opinion that the ERDF was a very cumbersome means by which to organise budgetary compensation. In terms of the analysis presented in chapter 2, the transaction costs of early governance structures were particularly high given the 'real' objective of the ERDF. In examining a senior civil servant in the Department of Industry, the House of Lords Select Committee on the European Communities suggested that the Fund was little more than a 'book-keeping exercise' with little impact on regional economic development, and that 'straight cash transfers to national governments' would be a simpler method of achieving the same objective. To conclude this chapter, the response of the civil servant is quoted below in full as it captures perfectly the *raison d'être* of the ERDF and the symbolic function it served for the member state governments and the European Commission at that time:

> I am bound to say, my Lord Chairman, that such an approach would be simpler. It would reduce the whole exercise, if one may so put it, to a single exchange of cheques between Member States within the Community; but I frankly do not think that such an arrangement, whatever its administrative simplicity, would really commend itself either to our partners in the Community or to the Community itself since it would not really give a Community policy or a Community image to the whole of the operations of the Fund. I think this is important in the sense that the Community wishes itself to be seen as having a policy and exerting influence which goes beyond that of a mere taker in or disburser of funds to remedy disparities, or help remedy disparities, between the levels of prosperity in Member States (House of Lords 1981: 13-14).

The transaction costs of organising and distributing the ERDF were indeed high, and consequently the suggestion that a simple issuing of cheques to national governments would be more efficient was regularly raised by UK ministers and central government officials throughout the 1980s. Since the late 1980s, however, implementation arrangements for the ERDF have evolved considerably. The post-1988 procedure bears a striking resemblance to the contracting proposal made by the European Commission in 1981 and rejected at that time as an unfeasible, rigid and expensive approach. It is to the evolution of the ERDF since the reform of the Structural Fund Regulations in 1988 that this study now turns.

Chapter 4. The ERDF Since 1988: Policy Evolution and New Theoretical Contributions

4.1 Introduction

This chapter analyses the fundamental revision of the European Regional Development Fund in 1988, against the background of new theoretical contributions in this field. The primary aim of the chapter is to examine the extent to which the 1988 reforms at last provided the European Commission with the tools, at least according to the terms of the Regulations, to fashion regional economic development contracts with actors in the Community's disadvantaged regions. As such, this chapter complements chapter 3. The previous chapter has shown how the principles of concentration, programming, partnership and additionality guided DG XVI's attempts to re-direct the ERDF from a purely compensatory function to a development function since the establishment of the Fund. In 1988, during a period of optimism and expanding competencies for the European Commission, these principles were made explicit and given a firm footing in the revised Regulations. The analytical overview of the 1988 changes provided by this chapter continues to focus on the European level, before subsequent chapters examine in greater depth the implications of these changes for the implementation of ERDF programmes at the regional level. An appreciation of the enhanced role of the European Commission, in terms of the Regulations, is indispensable for the analysis presented of the Commission's ability to shape the implementation of ERDF programmes in Western Scotland.

In 1988, alongside the European Social Fund and the Guidance Section of the EAGGF, the ERDF underwent the most radical overhaul of its operation since the establishment of the Fund in 1975. The indisputable fact that the 1988 Regulations allowed the European Commission greater discretion than had previously been the case over the deployment of vastly increased Structural Fund resources, has led to a profusion of academic studies of the Structural Funds in recent years, as shown in Section 4.4 below. Many studies focus on the impact of changes in the Structural Funds policy process upon the 'territorial restructuring' of member states.[1] Such studies generally examine the implications of Structural Fund changes for the process of regionalisation within Community member states (often irrespective of the fact that such policy is only one of a number of potential influences on 'territorial restructuring'). Leonardi's study,

[1] Balme and Jouve (1993), Gentle (1993), Ioakimidis (1993), Jacinto (1993) and Laffan (1993a) adopt such a perspective.

focusing on changes in the structure of sub-national governments in Greece, Ireland, Italy, Portugal and Spain as a result of the Structural Fund reforms (1992), is typical in that it views the Structural Fund reforms from a *regional perspective*, questioning the extent to which regional actors are now able to participate in this policy field and the implications such participation carries for the territorial distribution of power within the member states. There is no corresponding focus in the literature on the implications of the changes for the Commission's ability to shape Structural Fund programmes.

As suggested in the introductory chapter of this thesis, only the studies by Deeken (1994) and Hooghe (1993) approach the question of the Structural Funds reform explicitly from a *European Commission perspective*. However, neither of these studies questions the extent to which the Commission itself is able to guide the new implementation arrangements and achieve its own regional economic objectives through the implementation structures which have been set up. As suggested in the introduction, this research therefore swims against the tide of current research on the Structural Funds by explicitly adopting the perspective of the European Commission. The following analysis of the 1988 reforms focuses on the extent to which the new Regulations finally provided the Commission with the tools necessary to operate a Community regional policy meeting the Funds' stated objectives. Chapters 5, 6 and 7 then look at the extent to which these tools effectively allowed the Commission to shape the day-to-day implementation of ERDF programmes at the regional level.

The research which comes closest to examining the extent to which the European Commission is able to shape the post-1988 developments to achieve its own objectives in the UK is that by Gary Marks (1992; 1993). Marks' conceptualisation of the practice of structural policy as the leading edge of a system of 'multilevel governance' is increasingly referred to in the wider literature on European public policy (see From & Stava 1993; Fuchs 1994). Much of the emphasis of Mark's research is reiterated herein. Firstly, he stresses that the *practice* of structural policy is distinct from the dynamics of budgetary expansion and should be examined as such (1993: 399). Secondly, he points out that the 1988 reforms were justified in terms of 'administrative efficiency and economic rationality, and to enforce the principle of additionality', and were therefore informed more by technocratic concerns than by conscious constitutional design (1992: 211). Thirdly, the principles of programming, partnership, additionality (and concentration) on which the 1988 reforms were based provide the Commission with a potentially 'wide latitude in formulating and implementing policy' (1993: 395). Fourthly, the reforms 'extend the EC's administrative reach into the regions and into individual programs in the regions' (1992: 212). This study shares Marks' observations on all four points. It is suggested that Marks' research is a particularly useful contribution to the study of EC structural policy. However, his wider conclusions regarding the role of the European Commission in ERDF programme implementation in the UK are disputed herein.

It is suggested in Section 4.4 of this chapter that Marks' conceptualisation of structural policy implementation in the UK over-estimates the capacity of the European Commission to shape the implementation of ERDF programmes. The primary weakness in Marks' research is that he does not present a significant amount of detailed data on any given region to illustrate his general claim that 'when one lifts the lid on the practice of structural policy, it is clear that the Commission has played a vital role in designing the institutional framework. Within that framework, the Commission is the key actor in the process of policy making and implementation' (1993: 399). This gap testifies to the fact that it is extremely difficult to access data on programme implementation for any region in the UK. The data Marks does present on 'subnational government and transnational networks' does not provide the analysis of the 'practice' of structural policy that he himself calls for. Instead, the main evidence Marks provides for the conceptualisation of structural policy as multilevel governance (except the general analysis of the reforms in the Regulations at the European level) is the apparent back-down by the UK central government after a confrontation with the European Commission where funds earmarked for the UK under the RECHAR Community Initiative were frozen for 18 months in a dispute over additionality. It is suggested in Section 4.4 below that the weight of the wider conclusions Marks draws from the implementation of Structural Fund programmes in the UK cannot be borne by the evidence he presents. The chapter therefore presents two sets of evidence showing how Marks' account generally over-estimates the role of the European Commission: firstly, on the 1993 're-reform' of the Regulations, when many of the tasks granted to the Commission in 1988 were 're-nationalised'; and secondly, on the way in which the apparent back-down by the UK government over RECHAR was never fully implemented.

The aims of this chapter are threefold. The first aim is to present a detailed analysis of the 1988 Structural Fund reforms. This analysis considers the extent to which the key principles of concentration, programming, partnership and additionality were strengthened in 1988. Secondly, the reforms are placed against the background of the changing nature of theorising about European Community policy-making, and the development of more rigorous approaches than those of the early neofunctionalist and intergovernmentalist approaches presented in chapter 3. Finally, this chapter challenges Marks' conceptualisation of the Structural Funds implementation process in the UK as premature, since it overstates the role of the European Commission. More generally, the chapter seeks to show that the aims the European Commission sought to achieve through the Structural Fund reforms were principally *technocratic*, and geared towards their interpretation of effective regional planning. Following from this, it is suggested that the strengthening of programming has been a central means by which DG XVI sought to pursue the *development function* of the Fund, and that partnership was a necessary innovation to provide DG XVI with policy relevant information. The 1988 Regulations thus established a complex process of territorial political exchange involving sub-national actors in the field of EC regional policy.

The remainder of chapter 4 is organised in five sections. **Section 4.2** provides a short background to the 1988 reforms which emphasises the fact that the European Commission sought to finally direct the ERDF to its stated economic development objectives. **Section 4.3** analyses the extent to which this was realised by focusing on the detailed provisions for the principles of concentration, programming, partnership and additionality. The significance of the *Community Initiatives* is also addressed in this section. **Section 4.4** then places the 1988 reforms in the context of recent theoretical contributions and presents in greater depth Marks' approach of 'multilevel governance'. This section also considers some of the provisions of the 1993 'reform of the reformed Regulations' to illustrate the extent to which member state governments were able to 'claw back' several of the tasks that had been allocated to the European Commission in 1988. In a similar vein, **Section 4.5** examines the conflict between the UK government and the European Commission over additionality in the context of the RECHAR dispute. This dispute provides a central source of evidence for the 'multilevel governance' approach, by showing how the European Commission apparently forced a back-down by the UK government over the issue of additionality. However, as is demonstrated in section 4.5, even in the case of the RECHAR dispute the ability of the member state government to renege on prior commitments should not be under-estimated. **Section 4.6** draws general conclusions from this analysis before turning to the systematic analysis of the day-to-day implementation of ERDF programmes in the region of Western Scotland. It is to the background of the 1988 reforms that this chapter now turns.

4.2 The Background to the 1988 Reforms

A senior official in the European Commission recently confirmed what many academic analysts had long argued: that, until the Single European Act (SEA) and the commitment to 'cohesion' in the Treaties governing the European Community, the role of the European Commission in regional development policy was primarily cosmetic.[2] In reality the ERDF was used to support national regional policies and hence to address regional disparities within member states, rather than to reduce Community-wide regional disparities. This gave a *de facto* control over the ERDF to the member states, reducing the European Commission's role to the symbolic one of 'selling itself' at a local level. Even if the ERDF did not allow an autonomous role in regional development policy for the European Commission, it allowed the latter to increase its visibility at the local level in Europe through European flags and poster publicity at the site of nominally assisted projects. According to the same official, this 'flag syndrome' assumed lesser importance following the Structural Fund reforms in 1988 when new arrangements were introduced which allowed the European Commission to pass from a mere disburser of funds to a 'partner' with national, regional and local actors in pursuit of the common goal of regional economic development. In terms of the analysis presented in chapter 3, the reforms of 1988 represent the point at which the balance of importance between the potential development and compensatory functions of the ERDF swung further to the former than at any other time in the history of the Fund. This section sketches the background to the approval of these new arrangements before the following section analyses their specific form.

The timing of the radical overhaul of the Structural Funds as a whole (ERDF, ESF and EAGGF Guidance Section), coming in 1988 on the heels of both the Single Market programme and Community enlargement to include Spain and Portugal, is instructive. As the European Commission itself has acknowledged, the timing of the reform of the Funds was not simply 'fortuitous' (European Commission 1989: 9). The 'relaunch' of the EC during Jacques Delors' first presidency of the European Commission is a well recognised phenomenon (Keohane & Hoffmann 1991b; Ross 1995). Also in the mid-1980s, a semi-official report entitled *Efficiency, Stability and Equity* was produced by a group chaired by Tommaso Padoa-Schioppa, previously a senior Commission official, at the behest of the European Commission. The group had been asked to investigate 'the economic consequences of the decision taken in 1985 to enlarge the Community to include Spain and Portugal and to create a market without internal frontiers by the year 1992' (Cutler, Haslam, Williams & Williams 1989: 77). Their report concluded that simple faith in the

[2] Dr Achilleas Mitsos, a Director in the European Commission (formerly with the Directorate-General for the Co-ordination of Structural Policies) made these points in a seminar presentation at the European University Institute in Florence on 8 March 1994. The ideas and opinions expressed in the presentation (which reflected personal views rather than the official Commission position) were summarised in an unpublished paper by Dr Mitsos entitled 'The Community's Redistributive and Development Role in the post-Maastricht Era'.

mechanisms of market liberalisation would not be enough to guarantee the realisation of economic growth smoothly throughout the Community's territory:

> There are serious risks of aggravated regional imbalance in the course of market liberalisation. This is because different economic processes will be at work as markets integrate, some tending towards convergence, others towards divergence. Neither dogmatic optimism nor fatalistic pessimism is warranted in these respects. Opportunities for convergence will be increased, but adequate accompanying measures are required to speed adjustment in the structurally weak regions and countries, and counter tendencies towards divergence (Padoa-Schioppa 1987: 4).

The Commission, in retrospect, accounted for the 1988 reform of the Structural Funds by pointing out that the accession of Spain and Portugal in 1986 had widened the gap between the Community's richest and poorest regions to a level that was unacceptably large in preparing for the Single Market (European Commission 1992a: 7). The implied direct chain between realisation of an 'unacceptably large' gap in regional economic performance and the Structural Fund reforms somewhat obscures the political bargaining carried out in 1987 and 1988. McCrone's observation that disparities usually exist long before their recognition as a political problem (1969: 13), cited in earlier chapters of this study, is again highly instructive. In reality, significant splits emerged over the distributive implications of what had been agreed under the Single European Act. The testimony of a senior Commission official that, 'without the Structural Funds five members would have had severe doubts about signing up for the Single European Act' is particularly relevant (Audit Commission 1991a: 12).[3] At the Brussels European Council meeting on 11-13 February 1988 it was therefore agreed to double the Structural Funds budget in real terms from ECU 7 billion in 1987 to ECU 14 billion in 1993. By 1992 Community structural spending would therefore reach 27% of the Community budget compared with 17% in 1987. This increase in the overall Structural Fund budget amounted to ECU 60.3 billion (in 1989 prices) for the 1989-1993 period.

As Marks suggests, however, 'determining the size of the budget does not determine the manner in which it is spent' (1993: 395). At the time of the SEA itself, the need to increase the effectiveness of the Structural Funds had been recognised at the same time as the need to increase the amount devoted to such expenditure with the

[3] See Marks (1992), Hooghe and Keating (1994) and McAleavey (1994) for analyses of why the expenditure allocated to the Structural Funds has increased so greatly in recent years.

explicit reference in Article 130A of the Act to the promotion of 'overall harmonious development' and the strengthening of 'economic and social cohesion'. Article 130D of the Single European Act therefore required amendments to the three Structural Funds through a framework regulation in order to 'co-ordinate their activities between themselves and with the operations of the existing financial instruments'. It was in this context that the Commission was invited to present to the Council comprehensive proposals for the reform of the Structural Funds.

The European Commission presented to the member states in 1987 a set of ambitious proposals for the reform of the Structural Funds.[4] As Hooghe and Keating have suggested, the European Commission was 'in a strong position to define the cohesion problem and lay down the rules for a cohesion policy', given its power of putting proposals before the Council of Ministers (1994: 374). Moreover, 'cohesion' was a rather ill-defined term and allowed a number of interpretations. The Commission itself later argued that, although the principle of solidarity between member states had been implicit in the EEC Treaty, the Single Act provided explicit recognition of this and therefore gave a political imperative for comprehensive reform of the Funds (European Commission 1989: 10). While the European Commission's earlier proposals for reform of the Funds (in particular the 1983 proposals for reform of the ERDF Regulation examined in chapter 3) had met strong opposition, the 1988 proposals were more openly accepted by many members states. Hooghe and Keating attribute this 'favourable constellation of conditions' to strong leadership from the European Commission, demands from peripheral member states, the willingness of potential donors to accept the Funds as 'the price to be paid' for the Single Market programme, the emphasis on a social counterbalance to the free market promoted by the Delors Commission, and the need to mobilise support for the Single Market in disadvantaged as well as prosperous regions (1994). The specific form of the Regulations emerging from this particular constellation of conditions should now be considered.

4.3 The 1988 Structural Fund Reforms

The Brussels European Council of 11-13 February 1988, as well as agreeing to a doubling of overall Structural Fund resources, endorsed the general principles outlined in the 1987 Commission draft Regulation. The Structural Fund reforms were subsequently

[4] *Draft Regulation on the Tasks of the Structural Funds and their Effectiveness and on Co-ordination of Operations between them and with Operations under the EIB and other Financial Instruments*, Com(87) 376/2/final.

fleshed out during 1988 through three main Regulations which came into effect on 1 January 1989, known as the 'Framework', 'Horizontal' and 'Implementing' Regulations. These changes should be explained in terms of the key principles promoted by the European Commission.

As highlighted at the start of this chapter, the four basic principles were clearly enshrined in the reforms. Although these were the underlying principles promoted by the European Commission throughout the evolution of the ERDF, they were strengthened under the 1988 reforms and explicitly set out in a variety of Community documents. The importance attached by the European Commission to the four principles can be gauged from the fact that the four 'annual reports' on the implementation of the reform of the Structural Funds prepared since 1991 each devote significant space to evaluating the basic principles of the reform.[5] Of course the other principles referred to in the preceding analysis (co-ordination of instruments and monitoring/assessment) were also important elements of the 1988 reform and will be considered in the case study which follows. Nevertheless, the four main principles of concentration, programming, partnership and additionality remain at the centre of analysis and each should be considered in turn. Before analysing advances on the principle of concentration, it should be noted that much of the information which follows is drawn from the European Commission's own *Guide to the Reform of the Community's Structural Funds* (1989), widely known simply as the *Vade-Mecum*.

4.3.1 *Concentration*

The principle of concentration suggests that the allocation of the Structural Funds and loan instruments of the European Community ~~should be concentrated~~ in favour of the most disadvantaged regions, focusing the development effort in those priority regions experiencing the greatest difficulties. The obvious logic here is that as much economic development as possible should be generated in those regions in which it is most needed. Concentration therefore took the form of the elaboration of five priority 'Objectives' set out in the reformed Regulations as follows: economic adjustment in less-developed regions; conversion of regions suffering industrial decline; amelioration of long-term unemployment; integration of young people into the labour market; and development in rural areas. Figure 4.1 summarises these Objectives. In essence, the Objectives

[5] Article 16 of the Horizontal Regulation required an annual report on the implementation of the reform. At the time of writing there have been four such annual reports (European Commission 1990; 1992d; 1993e; 1994b).

constituted 'explicit priorities for the overall distribution of the structural budget' (Marks 1992: 206). The ERDF addressed three of the Objectives (1, 2 and 5b), but not in isolation as ESF and EAGGF resources were also utilised. It should also be noted that up to 80% of ERDF resources were to be devoted to the most seriously disadvantaged (Objective 1) regions. The Objectives were therefore designed to facilitate a concentration of financial instruments which had, with the exception of Integrated Development Operations and Integrated Mediterranean Programmes, operated separately until that time.

Figure 4.1: The Priority Objectives of the 1988 Structural Fund Reforms

		EC Instruments Employed
Objective 1	Promoting the development and adjustment of the regions whose development is lagging behind (i.e. where per capita GDP is less than, or close to, 75% of the EC average).	ERDF, ESF, EAGGF, EIB loans & ECSC loans.
Objective 2	Converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously affected by industrial decline.	ERDF, ESF, EIB loans & ECSC loans.
Objective 3	Combating long-term unemployment (i.e. assisting those above the age of 25, unemployed for more than 12 months).	ESF, EIB loans & ECSC loans.
Objective 4	Facilitating the occupational integration of young people (i.e. job-seekers below the age of 25).	ESF, EIB loans & ECSC loans.
	And with a view to the reform of the Common Agricultural Policy:	
Objective 5a	Adapting production, processing and marketing structures in agriculture and forestry.	EAGGF.
Objective 5b	Promoting the development of rural areas.	EAGGF, ERDF, ESF & EIB loans.

Source: European Commission (1989) *Guide to the Reform of the Community's Structural Funds* (Luxembourg: Office for Official Publications of the European Communities).

The spatial area covered by regions under each Objective was determined according to the NUTS statistical framework (*Nomenclature des Unités Territoriales Statistiques*). The NUTS system ~~had been established by Eurostat~~ (the Statistical Office of the European Communities) in co-operation with other units in the European Commission in order 'to provide a single, uniform breakdown of territorial units for the production of Community regional statistics' (Eurostat 1989: 3). In effect, the system represents an effort to impose a technocratic definition of regions for the purposes of collecting data. The system employs a three level hierarchical classification: the nomenclature subdivides each member state into a number of level I regions, each of which are then subdivided into a number of level II regions, which are in turn subdivided into a series of level III regions. The aim is to allow a comparison of regional economies across the Community in terms of their economic performance. The NUTS nomenclature therefore divides the entire Community territory into 66 regions at level I, 176 at level II and 829 at level III. The key to understanding the NUTS system is that, for practical reasons relating to data availability and the implementation of regional policy, the nomenclature must be based on the institutional (i.e. administrative) divisions in use by the member states for their own purposes of data collection at a sub-state level.[6] Eurostat does not have the immense resources that would be required to re-constitute a database of regional economic information drawn up along new territorial lines. It should be noted that the unavoidable but convenient reliance on national territorial divisions results in some anomalies, so that each NUTS level contains regions which differ greatly, as Eurostat itself explains, in terms of 'area, population, economic weight or administrative powers' (1989: 4).

These regions provide the basis for the eligibility criteria for the priority Objectives of the Structural Funds in receipt of ERDF resources. Objectives 1 regions are defined as NUTS level II regions whose 'per capita GDP measured in terms of purchasing power parity is less than 75% of the Community average, and other regions whose per capita GDP is close to that of regions under 75% and whose inclusion is justified by special circumstances'. Eligibility for Objective 1 status was decided in the Council and eligible regions were actually listed in the Framework Regulation. An indicative allocation of the breakdown of ERDF assistance under Objective 1 was therefore made among seven of the twelve member states as follows: 16.2% to the whole of Greece;

[6] At the sub-state level in the UK, the eleven NUTS Level I regions correspond to the domestic Standard Planning Regions. These are disaggregated into 35 NUTS Level II regions, which are actually clusters of local authority counties (local authority 'regional councils' in Scotland) grouped solely for Community statistical purposes. Individual authorities themselves constitute the 65 NUTS Level III regions.

5.4% to the whole of Ireland; 17.5% to the whole of Portugal; 32.6 % to large parts of Spain; 24.5% to southern Italy; 2.1% to France for the Overseas Departments and Corsica; and, 1.7% to the United Kingdom for Northern Ireland (European Commission 1989: 18). The allocations to France and the United Kingdom were those covered by the 'special circumstances' proviso in the eligibility criteria.[7] Objective 1 regions and countries were given highest priority, reflected in the fact that by 1992 the assistance directed towards them would be doubled in real terms compared to the 1987 commitments. The structurally underdeveloped regions were therefore set to receive more than ECU 9 billion of the ECU 14 billion available by 1993, around 65% of the total Funds.

More relevant for this research are the eligibility criteria and the indicative breakdown of expenditure for Objective 2 regions. The region of Western Scotland which is the focus of chapters 5, 6 and 7 is eligible under Objective 2 of the Funds. The Framework Regulation did not list the eligible regions, as it did for the more politically sensitive issue of Objective 1 regions, but Article 9 set out instead two sets of designation criteria. As Wishlade (1993) has observed, the first set were essentially quantitative while the second set were more qualitative.

> The areas referred to .... must represent or belong to a NUTS level III territorial unit that satisfies all the following criteria:
> (a) the average rate of unemployment recorded over the last three years must have been above the Community average;
> (b) the percentage share of industrial employment in total must have equalled or exceeded the Community average in any reference year from 1975 onwards;
> (c) there must have been an observable fall in industrial employment compared with the reference year chosen in accordance with point (b) (European Commission 1989: 65).

These criteria were supplemented by three further eligibility criteria of a more flexible nature:

[7] Corsica and Northern Ireland were two 'regions' which qualified for Objective 1 eligibility, despite the fact that GDP per head in each region was above the 75% threshold. Both were included on the demand of France and the UK at the February 1988 Brussels European Council, for political reasons. In the case of Northern Ireland, the only Objective 1 region in the UK at that time, it would have been highly sensitive to designate the whole of the Republic of Ireland Objective 1 while incorporating the northern Irish economy under another Objective. The island of Ireland would therefore have been divided into different Objective regions, with varying grant rates on either side of the border.

- adjacent areas satisfying (a) to (c) above;
- urban communities with an unemployment rate at least 50 percent above the Community average which have recorded a substantial fall in industrial employment;
- other areas which have recorded substantial job losses over the past three years or are experiencing or are threatened with such losses in industrial sectors which are vital to their economic development, with a consequent worsening of unemployment in those areas (ibid.: 65).

The final point in particular was an attempt to allow for an element of uncertainty: the eligibility criteria should be flexible enough to allow resources to be allocated to those regions *expected* to experience concentrated job loss in specific industrial sectors.

It was stipulated in the Regulations that the Commission would draw up the initial draft list of eligible regions. These criteria therefore provided the basis for an initial Commission list which was then negotiated with the member states. The final list of 60 regions eligible under Objective 2 was announced in March 1989. As Wishlade has acknowledged, 'it is a measure of the controversy surrounding Objective 2 designation that coverage is some 16.7 percent of the total Community population', while 'the ceiling provided for in the Framework Regulation ... was set at 15 per cent of the population after the designation of Objective 1 areas' (1993: 6). Cheshire, Camagni, De Gaudemar and Cuadrado Roura (1991) have quoted the Commissioner for Regional Policy (Bruce Millan) saying of the designation of eligible regions at the time that 'the division of the criteria into two categories - a set of basic statistical criteria and a separate group of optional criteria which were less precisely defined - had made for a complex process of selection' (1991: 294). In fact, interview sources have revealed that the final selection of eligible Objective 2 areas was negotiated between the Commission and the member states on the basis of initial proposals of some 900 regions received from the latter.[8]

As they were eligible in their entirety under Objective 1, Greece, Ireland and Portugal received no Objective 2 resources. Table 4.1 shows the indicative breakdown of Objective 2 resources announced in December 1989 for the remaining member states.

[8] Official in Unit for Co-ordination of Evaluation, DG XVI; Brussels, 4 October 1993.

Table 4.1: Allocation of ERDF Objective 2 Resources by Member State

	Total Share (MECU)	% Share
Belgium	145	5%
Denmark	22.4	0.8%
Germany	249.7	8.6%
Spain	576	19.7%
France	514	17.6%
Italy	179	6.1%
Luxembourg	15	0.5%
Netherlands	56.8	1.9%
United Kingdom	1,158.6	39.7%
Total	2,916.5	100%

Source: European Commission (1990) *Annual Report on the Implementation of the Reform of the Structural Funds* (Luxembourg: Office for Official Publications of the European Communities).

The United Kingdom, with significant concentrations of regionally based industrial decline, was the major beneficiary under Objective 2, and was set to receive almost 40% of the ERDF resources set aside for this purpose. It should be noted, however, that this was not all new money, since the allocations included existing commitments for multi-annual programmes begun under the previous ERDF Regulation such as NPCIs or IDOs (Audit Commission 1991b: 7). The significance of this overlap is addressed in chapter 5, as Western Scotland was still covered by an Integrated Development Operation at the time the allocation to the new Objectives was determined.

The sixty regions which were ultimately assigned Objective 2 eligibility were an extremely diverse group in terms of their size and population, but shared the characteristic of sustained industrial unemployment. As such, the European Commission had succeeded to an extent in promoting the principle of concentration. For many years, the Commission had sought to enforce a distinction between regions of 'serious structural underdevelopment' and those suffering from 'current and serious problems of industrial decline' (Stuart Wabe 1986: 28). Nevertheless, concentration remained a highly sensitive principle for the member states, given the implications of concentrating resources in fewer regions (and hence fewer member states). The fact that the authority to take decisions on eligibility for Objective 1 status (up to 80% of the ERDF resources) was retained by the Council of Ministers testifies to this sensitivity. Wishlade has pointed out that 'area designation for Structural Fund purposes has attracted widespread negative comment', as 'the whole process has been criticized for being subject to a high degree of political influence from Member States seeking a *juste retour* and other parties wanting to maintain the *status quo* of Community regional policy support' (1994: 80). Even if an element of the 'carve-up' approach did remain, the advances made by the European Commission on the other key principles were more radical. Resource allocation *between* regions does not directly determine the way in which these resources are allocated *within* regions. For the first time, three months after the list of eligible regions was made public, the member states had to submit full development plans.

4.3.2 *Programming*

The 1988 Structural Fund reforms finally saw the replacement of the project-by-project system of financing by multi-annual programmes of expenditure of three or five years depending on the priority Objective. The principle of programming represents an attempt by the European Commission to impose a 'rational' system of development planning for the allocation of resources within regions. The *Vade-Mecum* describes the shift to programming in the following terms:

> The reform of the Structural Funds involves a switch from a project-based to a programme-based approach. This new approach should make it possible to give Community action the necessary depth and width, while at the same time allowing greater flexibility. Community operations that are spread over a number of years, with joint action by the Funds, the EIB and the other financial instruments, will be better able to respond to changing economic and social realities. Programming should facilitate:
>
> (i) some degree of decentralization of the management of Community assistance, itself encouraged by the partnership arrangements;
> (ii) predictability of Community assistance, which will stimulate investment;
> (iii) improved assessment of Community assistance;
> (iv) better administration of applications for assistance.
>
> Programming will also make it possible to take a coherent overall medium-term view of the operations to be mounted in pursuit of each priority objective and to establish a framework for the co-ordination of these operations (European Commission 1989: 21).

Laffan uses the distinction between 'categorical' federal grants and block grants in the United States to illustrate the significance of the shift from project financing to programming in the reform of the Structural Funds. Categorical grants, in other words financial 'allocations made for projects in a very precise manner', had earlier been replaced to a large extent by block grants in the United States 'because it was found that the former could not be adapted to local needs, were difficult to control and placed a heavy burden on the administrative system' (1989: 44). According to Laffan, the 'categorical' nature of EC structural funding in the 1980s led to similar problems:

> Structural fund legislation is extremely rigid in character. Ambiguities and inconsistencies are often apparent because EC law is the result of a process of bargaining and negotiations in the Council of Ministers. The interpretation of legal texts is a constant challenge for the Commission as it strives to make the funds sensitive to local needs. EC administrative arrangements encounter severe management problems - procedures are frequently cumbersome, time-consuming and intricate (ibid.: 44).

The programme approach adopted in 1989 renders EC Structural Fund grants more like block grants than categorical grants. The essence of programmes, according to an internal Commission working party, was that they should involve a 'series of consistent multi-annual measures' (ibid.: 45). In short, the Commission sought to institute a process of contracting with individual regions, whereby all partners could agree on a set of development objectives, goals and targets for the area instead of financing a series of unrelated individual projects. To this end, a three stage planning procedure, widely known by the French term *programmation* was ultimately introduced in 1988.[9] The first stage involved the submission of a *Regional and Social Conversion Plan* by the relevant national authorities. The European Commission then responded with the publication of a *Community Support Framework* (CSF). The third stage involved the implementation of *Operational Programmes*, turning the CSF into concrete measures in the eligible region. All stages should be carried out in partnership with all competent European, national, regional and local authorities. The nature of the documents prepared at each stage will be examined in greater detail in the case study which follows, but the stages themselves should be briefly described in turn at this point.

Stage one involved the preparation of multi-annual *Regional and Social Conversion Plans* by the member states, or by the competent national, regional or other

[9] Dr Achilleas Mitsos (see Section 4.2 of this chapter) pointed out that although 'planning' was in many respects a 'forbidden word', the term *programmation* was generally interpreted simply to mean 'planning'.

authorities designated by them. The plans covered the five year period from 1989 to the end of 1993 for Objective 1 and Objective 5b regions, but only three years (1989 to 1991) for Objective 2 regions which, if they retained eligibility at the end of this three year period, would then need to submit new plans to cover the two-year period 1991-1992. The logic behind this differentiation was that a review of eligibility for Objective 2 regions would increase the flexibility of such support, and would allow funding to be directed to areas suffering unforeseen industrial decline.[10] The plans submitted by the member states should contain the following information:

1. an economic and social analysis of the plan area, defining and describing the eligible region;
2. a description of the envisaged development strategy, the method and means of its implementation, and an indication of national and regional financing, and Community operations already under way;
3. the development priorities to be financed;
4. an estimate of the total funding required, broken down by structural instrument (Funds, EIB, other instruments) (European Commission 1989: 28).

Moreover, Article 2 of the Implementing Regulation called for information on the national, regional, local, or other authorities with responsibility for implementing the plan to be included in the plan submission. It is highly instructive at this point to refer back to Section 3.3.4 of the preceding chapter which outlined the Commission's requirements for programming as set out in the early 1980s (European Commission 1981b). Although the Commission was not successful at that time in gaining widespread acceptance of the principle of programming, the similarity between the 1981 proposals and the 1989 Regulations demonstrate that persistence was ultimately rewarded. When the 'constellation of conditions' (Hooghe & Keating 1994) was more favourable, the Commission used its power of proposal to push the principle of programming.

The requirement that these plans should be submitted only three months after the publication of the list of eligible areas obviously constrained the extent to which they could constitute exhaustive surveys of the regional development requirements of given regions. In other words, time constraints meant that they could not even approximate to

[10] In practice, the Commission simply decided, after lobbying by the regions concerned, to extend the original list for the further two-year period (European Commission 1991a: 9). The *Third Annual Report on the Implementation of the Reform of the Structural Funds* explained that, 'on 30 April 1991 the Commission decided, in view of the inevitable delays in getting programmes started in 1989 and the need to ensure a certain continuity, to maintain the list of 60 eligible regions for two years' (European Commission 1993e: 38). The Objective 2 regions were nevertheless required to submit new development plans for the 1992-1993 period.

mplete contracts'. As the Commission itself also explained, the preparation of the plans was the responsibility of the member states (acting in partnership with regional actors according to the terms of the Regulations). By its own admission, 'the Commission played no part' in the preparation of the Regional and Social Conversion Plans (European Commission 1990: 25).

Stage two involved the determination of the priorities for action by the European Commission through *Community Support Frameworks* (CSFs), elaborated in close association with member states and with the competent national, regional, local or other authorities designated by them. In the words of the European Commission:

> The CSFs are the Commission's response to the needs spelt out in the plans. They map out the broad lines of the measures to be taken jointly by the Member States and the Community and provide the reference framework for the applications for assistance submitted to the Commission by the Member States (1989: 30).

Each CSF was adopted by a formal Commission decision in agreement with the member state concerned and after consultation with the appropriate committee. Three advisory committees were to assist the European Commission in implementing the reform of the Structural Funds. Of most relevance here is the *Advisory Committee on the Development and Conversion of the Regions*, composed of national civil servants, which replaced the Regional Policy Committee (while the old Fund Management Committee was scrapped). The new advisory committee's main task was to deliver opinions on matters referred to it by the European Commission: the drawing up and revision of the list of areas eligible in connection with Objective 2; the periodic report on the social and economic situation and development of the regions of the Community; the broad guidelines for regional policy; any matter relating generally to regional development at the Community level; as well as draft decisions concerning the CSFs drawn up for Objective 1 and Objective 2 regions.[11]

The language of contracting was particularly evident in the Commission's explanation of what a Community Support Framework actually represented:

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[11] The meetings of the Committee on the Development and Conversion of the Regions and the opinions delivered are listed in the annual reports on the ERDF drawn up in accordance with Article 25 of Regulation (EEC) No. 4253/88 (e.g. European Commission 1991d; 1993d). The other two committees are 'the Committee referred to in Article 124 of the EEC Treaty' which delivers opinions on draft Commission decisions relating to the guidelines for action in connection with the ESF, and the 'Committee on Agricultural Structures and Rural development' delivering opinions on draft Commission decisions relating to Objective 5a and 5b actions.

It is the most tangible expression of partnership in that it represents a joint decision and reciprocal commitment:

(i) a political commitment on the part of the Commission since its decision is a declaration of intent addressed to the Member State concerned and published in the Official Journal of the European Communities;

(ii) a commitment on the part of the Member States to abide by a consistent framework for all their individual applications for assistance (European Commission 1989: 30).

Although CSFs were not explicitly labelled 'contracts' as such, *the essence of programming lies in the governance of the exchange relationships implied by the 'joint decision and reciprocal commitment'.* In particular, the CSF constitutes a contract whereby the European Commission exchanges the guarantee of multi-annual structural funding for the commitment by national authorities to allocate the resources within a framework, into the design of which the Commission has made some input.

The influence of French planning ideas in the development of the CSF approach was noted in Hooghe's explanation of the ultimate 'success' of the integrated CSF approach in terms of gaining acceptance within the European Commission in the late 1980s (1993). De Rynck also recognises the French influence in the Commission's acceptance of regional contracts at that time (1994). The civil servant leading the UK negotiating team in Brussels on the new Regulations was openly hostile to the influence of French planning ideas when he rejected CSFs as a 'new layer of bureaucratic planning which in our view would result in the Commission imposing its own preferences on Member States' planning priorities' (House of Lords 1988: 115). When it was put to him that he may have difficulty in winning that argument, he replied that 'this is a concept dear to the President of the Commission's heart but we will continue to do battle, having been in the vanguard of this fight. Virtually all Member States, even the French with their predilection for planning, are seeing the light' (ibid.: 115). Despite UK civil service hostility, the Commission proposals were accepted.

It is worth examining the form a Community Support Framework should take. Each CSF should include information under the following five headings:

(i) a statement of the priorities for action in relation to:
   (a) the principle of consistency with the economic and social policies of the Member State and region concerned;
   (b) the economic prospects of the region concerned;
   (c) the expected knock-on effects and synergies;
   (d) consistency with other Community policies (for example, the internal market, the environment, competition, research, agricultural policy etc.).

(ii) an outline of the forms of assistance;

(iii) an indicative financing plan specifying the financial allocation envisaged for the various forms of assistance and their duration, including those of the Funds, the EIB and the other financial instruments participating.
This plan, denominated in ECUs, should take into account expected available resources, the additionality requirement and the need tocombine grants and loans in the most effective manner possible, due regard being had in particular to the capacity of the investment to generate revenue.

(iv) information on the means available for any studies or technical assistance operations necessary for the preparation, implementation or adaptation of the measures concerned;

(v) indication of the procedures for implementing the CSF, and especially monitoring and assessment procedures, together with any more general particulars relating to the organization of the partnership (European Commission 1989: 30-31).

The European Commission, for its part, was obliged to approve a CSF no later than six months after receiving the regional development plan, irrespective of whether the proposed duration of the latter was three or five years. An attempt was nevertheless made to build an element of flexibility into this planning process when it was acknowledged that 'any CSF may be revised in agreement with all the parties concerned (Commission and Member State and/or authority designated by the latter) to take account of results achieved and the conditions under which it is being implemented' (ibid.: 31). The process of preparing such contracts in the case of Western Scotland is examined in chapter 5, while chapter 7 considers the extent to which the built-in flexibility is used opportunistically by member state actors to subvert the contract's original aims.

Stage three of the planning procedure constituted the operational stage, and was again based on a partnership between the Commission and the member states concerned and/or the competent authorities designated by the latter. The third stage essentially amounted to the eventual execution of the Community Support Framework, usually through an *Operational Programme*, comprising 'a series of consistent multi-annual measures', which identified 'the measures to be funded in accordance with the appropriate objectives, the scope of the measures, the proposed beneficiaries and provides an estimate of costs' (Nugent 1991: 2). It should be noted that the Operational Programmes do not detail all the projects to be supported and, in this respect, they do not resemble categorical grants (Laffan 1989). Individual projects are selected by the 'partnership' meeting at the regional level. The exact process by which this occurs is examined in chapter 7.

It is worth emphasising at this point that the ultimate stage in the implementation of a programme takes the form of individual projects submitted within the CSF framework. Although the individual measures undertaken must relate to the priorities laid down in the CSF and confirmed in the Operational Programme, the actual measures themselves constitute the ultimate stage of the process. This may seem obvious, but much of the current literature on the Structural Funds tends to overlook the fact that the European Commission is still obliged to co-finance projects brought forward by national, regional and local actors. The CSFs constitute a financial commitment by the European Commission to support regional development in an eligible region, but the final form that support takes is ultimately shaped by the nature of the projects submitted within the CSF framework. Although the CSF influences the sort of projects that are likely to be submitted, the implementation of the CSF itself still amounts to the sum of the individual measures which constitute an Operational Programme. Marks has suggested that, 'in contrast to project grants, which are straightforward financial transfers to member states for schemes they would probably undertake in any case, programs allow the Funds themselves to shape policy' (1992: 209). This is exactly what needs to be assessed through a detailed analysis of implementation at the regional level, and cannot simply be stated. For the European Commission, bargaining does not conclude with the agreement of the regional development contract.

A fourth stage, although actually intended to be a continuing process, was the monitoring and joint assessment of the programming procedure by the European Commission and the member states. As the *Vade-Mecum* explained, 'it is also important to know how Community money is spent and whether it has been spent correctly. The machinery for monitoring and assessing Community structural action will be effective only if the partnership arrangements function satisfactorily' (European Commission 1989: 22). A decentralisation of the monitoring system to regional level committees in the framework of partnership was therefore instituted. An element of flexibility was thereby sought as provisions were made for the amendment of CSFs and Operational Programmes in the light of changing economic circumstances. To this extent, the

CSF/Operational Programme could not state in advance all the measures to be supported, and hence constituted an incomplete contract. Amendments to the contract could be made by the regional level implementing committees.

Although the Audit Commission referred to 'a complex web of committees emerging' (1991b: 11), the basic pattern was of a two-tier system of committee meetings at the regional level. CSF Monitoring Committees, chaired by central government in the UK, co-ordinate the broad implementation of the CSF. These Committees (examined in chapter 6) meet around two or three times a year and comprise central government, local and regional 'partners' as well as European Commission representatives. At the lower level of the two-tier committee structure, Operational Programmes are implemented by Programme Monitoring Committees. These are again chaired by central government in the UK and comprise representatives from all elements of the partnership. The division of responsibilities between these two committee tiers is one focus of chapter 6.

The *Second Annual Report on the Implementation of the Reform of the Structural Funds* concluded that 'there is no doubt that the programming approach is one of the major achievements of the reform' (European Commission 1992d: 19). However, 'assessment has revealed certain factors which affect the quality of programming:

> - the first is undoubtedly the need to base the strategic development of a region on discussions with all those involved in its economy. This approach ensures both that the strategy is soundly based and that it is implemented successfully;
> - the second concerns estimating the time required for this strategic approach based on consensus to be put into practice. It is clear that when the reform was first implemented only those regions with experience of programming were able to draw up measures based on a development strategy acceptable to local agents.
>
> However, although pre-existing programming in certain member states is undoubtedly an advantage, it can also restrict the scope for Community assistance to the extent that the measures have already been defined between the regions and the central government, without the Commission's intervention' (ibid.: 19).

These are precisely the issues addressed below in the case study of programming in Western Scotland. At this stage, however, some attention should be devoted to the implications of the principle of partnership.

4.3.3 *Partnership*

As Deeken notes, the principle of partnership has figured prominently in the European Commission's view of the ERDF since the Fund's creation. The *First Annual Report on the European Regional Development Fund* stated in 1976 that 'Community regional policy is by its nature a partnership between the Community and its Member States, and with the former *at the present stage* the junior partner [emphasis added]' (quoted in Deeken 1993: 12). The 'more equal partnership' anticipated by the European Commission (1976a: 26) evolved as the size of the ERDF relative to domestic regional policy expenditures increased dramatically over the next decade, but the partnership was also extended beyond the outer-shell of the member state to include regional and local actors. As suggested in chapter 1, the principle of partnership was formally defined in the Framework Regulation as 'close consultations ... between the Commission, the Member State concerned and the competent authorities designated by the latter at national, regional, local or other level, with each acting as a partner, within the framework of its responsibilities and powers, in the pursuit of a common goal'. The importance of the principle to the European Commission was reaffirmed in the introduction to each of the CSFs:

> 'Partnership' is an important innovation introduced by the reform. It means the close involvement of regional and local bodies with the Commission and national authorities in planning and implementing development measures in their areas. On the basis of the CSF, all the parties concerned in the partnership will develop programmes and projects which will turn the priorities identified in the CSF into actions on the ground (European Commission 1991b: 6).

The Commission's guide to the reform of the Structural Funds suggested that partnership is 'the key principle underlying the reform of the Funds in that it determines the implementation of the other principles' (European Commission 1989: 14). The *Vade-Mecum* added that partnership mirrors the principle of subsidiarity, and, as such, the precise nature of partnership arrangements will depend on the institutional structures and traditions of each member state. Consequently, partnership will 'necessarily take many forms' (ibid.: 15). Practical applications of the partnership principle should, nevertheless, include the involvement of all relevant actors in the preparation of the development plans, in the negotiation of the Community Support Frameworks, in the implementation of Operational Programmes and in the monitoring and assessment of the measures undertaken.

The importance placed on the principle of partnership by the European Commission as a demonstration of 'subsidiarity in action' was underlined in a speech made by the then European Commissioner for Regional Policies (Bruce Millan) in 1989:

> ... In practice there should be an increasingly three-cornered partnership between Commission, national Governments, and regional and local authorities, in which there is mutual respect for each other's policy priorities, but equally a common search for joint fields of action. I think it would be fair to say that this new partnership is one of the more concrete examples of how the principle of subsidiarity can be put effectively into practice (Millan 1989: 7).

In similar fashion, the language of subsidiarity was usually employed in official Commission documents dealing with the subject of partnership: it was frequently suggested that the principles of partnership and subsidiarity went hand-in-hand. As the Director-General of DG XVI explained, 'the goal of subsidiarity is to permit each level of political or administrative responsibility to carry out the tasks for which it is best suited. In the case of regional development, this means that responsibility for implementation of the Community Support Frameworks is shared between local, regional, national and Community authorities. Each of these can and should concentrate on its own responsibilities, and so enhance the overall efficiency of the system' (Landaburu 1990: 99).

In effect, the partnership principle is designed to supply the European Commission with information on regional development problems and possibilities, direct from the regional and local actors closest to the regional economy. The *Vade-Mecum* explained that 'the partnership arrangements should ... lead to some decentralization of the Community's structural action, enabling it to be geared more closely to realities in the field, both in assessing needs and in implementing measures' (European Commission 1989: 15). However, partnership was not designed solely to facilitate information transfer. As the discussion of economic neo-institutionalism in chapter 2 illustrated, *co-ordination* of actors to prepare a coherent plan is only one aspect of the policy implementation equation. Partners must then be *motivated* to act according to the terms of the plan. The partnership principle was also designed for this latter purpose.

It is common to hear of the importance of increasing 'a sense of ownership' of the regional development programme among regional and local actors involved in the implementation of Structural Fund measures.[12] An evaluation of the CSF for North Western England made clear the importance of motivation, pointing out that 'it is clear that without national, regional and programme level ownership, the CSF can degenerate to a fund administration exercise' (Watson, Tomkins & Knox 1991: 10). The aim of increasing ownership was to motivate the partners to stick by the spirit of the contract. The importance of ownership *and* motivation was made clear by Commissioner Millan when he emphasised the significance of partnership: 'drawing on knowledge and experience which are close to the problems on the ground, not to mention a greater commitment to carrying actions through to completion, the Commission can feel more confident that its regional assistance is being spent in an effective and efficient way' (1989: 7). The Commission clearly appears to believe that regional actors will have a greater commitment to the plan if they are actively involved in its preparation.

The Commission's own review of the reformed Structural Funds' operation, *Community Structural Policies: Assessment and Outlook*, stressed that the capacity for both increased co-ordination and enhanced motivation sought through partnership depended to a great extent on the national administrative structure in which partnership is set:

> Effective application of this principle requires the respective tasks of the various authorities and bodies involved to be clearly defined and appropriate concentration methods and instruments to be implemented. A balance must be found between the greater possibilities for co-ordination, overview and economies of scale to be found at more centralized levels of administration and the greater knowledge of local needs and greater flexibility at more decentralized levels... [However] ... the opportunities for involving the regional authorities in the definition and implementation of Community assistance vary widely according to the institutional structures of the Member States (European Commission 1992a: 22).

It should be stressed at this point that, despite the views outlined above on subsidiarity and partnership, the European Commission takes no official line on the nature of regional government powers. This may seem obvious, but it is worth emphasising as it indicates the primacy of the Commission's concern through the ERDF with regional economic development, as opposed to regional political mobilisation. When Commissioner Millan was repeatedly asked for his views on local government reform in England a press conference in London in 1991, he agreed that splitting up

[12] In all the interviews conducted with those DG XVI officials with desk officer responsibilities for particular regions, the officials spoke of increasing the 'sense of ownership' of the programme among the regional and local partners involved in its implementation.

regional entities into smaller areas makes life difficult in terms of regional policy and co-operation but emphasised: 'that would be a general principle I would have which would apply elsewhere, not only in the UK, but as I have to keep saying to people, how individual member states decide their administrative arrangements below central government is a matter for them. It is not for the Commission. We have to work with whatever is there ... on devolution, again, there is no Commission view on regional devolution in the UK... It would be quite wrong for us to have an official view' (European Commission 1991a: 10). The neutral stance taken by Commission officials to territorial power relations was similarly emphasised in interviews conducted for this research.[13] This is not to deny that Commission pressure for the establishment of partnership arrangements may have some impact on 'territorial restructuring' (see the references at the beginning of this chapter). Rather, the primacy of economic development objectives for Commission action should be emphasised.

It should also be noted that the partnership, according to the European Commission, should be extended to include the various 'economic and social partners'. As the *Fourth Annual Report on the Implementation of the Reform of the Structural Funds* points out, the Commission has constantly reiterated its desire to involve the social partners closely in the programming process (1994b: 79). In particular, the European Commission sought the involvement of trade union representatives in the partnership process. Membership of regional level partnerships, however, is determined by the relevant member state government and many have been reluctant to increase the involvement of trade union actors in particular. Hence, much of trade union involvement has been at the European level where the Commission has supported a number of conferences and exchanges of experience, and has financed studies 'intended to strengthen the role of the social partners in the context of structural policies and their contribution to regional development and conversion measures' (European Commission 1994b: 79).[14] Despite the eagerness of the Commission, trade union involvement in the regional-level committees has been strongly resisted, especially in the UK, while European level initiatives provide largely symbolic involvement in structural policy.

[13] President Delors may have disillusioned any hopes of a 'Europe of the Regions' in this field when he reminded representatives of all 60 Objective 2 regions gathered together in Brussels in July 1991 of the importance of the dialogue with central governments, pointing out that 'in our view, partnership does not entail short-circuiting or ignoring the national government' (European Commission 1992e: 106).
[14] See Brunskill (1992) on Scotland and Pillinger (1992) on the North West of England for studies of the involvement of trade union representatives in two regions of the UK. Albers (1992) provides a wider, comparative study of trade unions' regional policies in the EC against the background of the Single Market.

One final point about the principle of partnership should be noted at this stage, and that is its link to the principle of additionality. As the first *Annual Report on the Implementation of the Reform of the Structural Funds* explained, 'the concept of partnership derives from the principle of complementarity contained in Article 4 of the [Framework] Regulation according to which "Community operations shall be such as to complement ... national operations". Any assessment of partnership in practice must take the Objectives into account and never lose sight of the fact that the Commission has acted and will continue to act within the limits laid down by the Member States concerned' (European Commission 1990: 25). The fact that programmes drawn up in partnership between the European Commission and member state actors were intended to complement the actions of national governments and regional actors within the states assumes that European programmes would be *additional* to the latter. However, as suggested in chapter 3, the ERDF in particular has long been treated in a non-additional manner by most member states. The new provisions for additionality contained in the 1988 Regulations sought to change this.

4.3.4 *Additionality*

The European Commission was aware in the late 1980s that the improvements it sought in programming, partnership and the general administration of the Structural Funds would have little effect in economic development terms if the Funds themselves were not additional at the regional level. However, problems associated with the enforcement of additionality had plagued the operation of the ERDF since its creation. A large part of the problem was the obscurity of domestic financial procedures and the consequent difficulty faced by the European Commission in obtaining information on the treatment of Structural Fund resources within the member states expenditure process. Against such a background, Article 9 of the 1988 Horizontal Regulation provided the strongest commitment yet to the principle of additionality:

> In establishing and implementing the Community support frameworks, the Commission and the Member States shall ensure that the increase in the appropriations for the Funds provided for in Article 12 (2) of Regulation (EEC) No. 2052/88 has a genuine additional economic impact in the regions concerned and results in at least an equivalent increase in the total volume of official or similar (Community and national) structural aid in the Member State concerned, taking into account the macro-economic circumstances in which the funding takes place.

It had been a widely held view that a consolidation of the programming principle would assist the European Commission in its attempts to enforce the additionality requirement (House of Lords 1988: 110). The Commission acknowledged in 1989 that 'while the additionality arrangements will be appraised on a case-by-case basis when the Community Support Frameworks are drawn up, a monitoring system needs to be set up as of now to assess the extent to which the Community effort is matched at national level' (1989: 21). The documents outlining the CSFs for each member state contained a chapter stressing that 'by agreeing to this Community support framework, the Member State also confirms its commitment to this legal obligation' provided by Article 9 (European Commission 1991b: 156). Enforcing this clause became a key issue for the Commission, which had been coming under great pressure from the Court of Auditors of the European Communities. The Court stressed that the attainment of true additionality was a prerequisite for achieving the increased impact sought by the reform of the Funds, and urged that the days when funds were 'reduced to a simple transfer of resources, which facilitates the relaxation of budgetary constraints, with positive effects on budgetary equilibrium, fiscal pressure or the redeployment of economic and social policies but without having any impact on the resources devoted to regional development' should be brought to an end (Court of Auditors 1991: 104).

The European Commission therefore sought to render the concept of additionality operational, but found itself bogged down in a series of technical disputes with the member state governments. In August 1990 the Commission requested that the member states should provide the information required to verify additionality (using a standard explanatory format) before 30 November 1990. This deadline was not respected as 'most of the Member States asked for more time and/or questioned the validity of the Commission's request, invoking technical problems relating to the difficulty of providing a breakdown of statistical and budgetary data' (European Commission 1992d: 20). The Commission then sent further letters in April 1991 asking for a reply by 15 May 1991 and proposing bilateral meetings to look at specific problems. The Commission was satisfied that Ireland, Portugal and Greece (Objective 1) and Germany and Belgium (Objective 2) operated broadly in respect of the principle. Bilateral contacts continued with other member states, but the Commission itself concluded that the 'situation cannot be regarded as satisfactory' (European Commission 1992d: 20-21). Scharpf's memorable dismissal of the Regional Fund as an insignificant programme is illustrative in this case: he pointed out that 'the only interesting question is whether European funds will add to, or substitute for, national expenditures, but the ability of national dogs to wag the

European tail is not really in doubt' (1988: 251). Nevertheless, the Commission continued to seek enforcement of the additionality principle, pointing out in the 1991 that it intended 'to continue its efforts to implement this principle of the reform with the active collaboration of the Member States within the framework of partnership' (European Commission 1993e: 18).

Although verification of the additionality of Structural Fund expenditure in the UK was a particular problem given the lack of transparency in the local expenditure-setting process there, the European Commission's case against the UK in this respect was clear. The Commission's dissatisfaction with the UK government are well illustrated by the case of West Cumbria, which was accepted as an Objective 2 region in 1989. The eligible area essentially covers three local authorities in the far north west of England. The domestic setting of local authority spending approvals, however, meant that the authorities did not have sufficient capital cover to 'draw down' the European money to which they were entitled. In other words, they did not have the necessary capital spending approvals to match the Structural Funds they were allocated. This was not simply a problem at the margin of their expenditure: it was impossible for the authorities to reorganise their expenditure priorities to cover the Structural Fund grants. Therefore, the UK central government simply refused to forward the Operational Programme for West Cumbria to the European Commission. Eventually, after sustained lobbying, supplementary spending approvals were granted for West Cumbrian local authorities and the Operational Programme was submitted in 1991. The local MEP expressed the opinion that 'it does seem that where ERDF money is allocated the Government should, as a matter of policy, allocate additional credit approval on an area by area basis, taking each one's particular needs into account, rather than dealing with the problem on a global basis after discussion with the local authorities' associations in the "smoke-filled rooms", as appears to be the case now' (House of Lords 1992: 176). The RECHAR dispute analysed in Section 4.5 below brought this problem to a head in the UK.

In evidence to the House of Lords Select Committee on the European Communities, Commissioner Millan suggested that 'there has always been a moral obligation on additionality', even before the actual specific obligation was included in the Regulations in 1988 (House of Lords 1992: 90). The Treasury contested the suggestion that there had been any form of obligation before 1988, and argued that 'there is nothing in the Community's law that imposes some sort of moral or spiritual obligation on us to go further than the text of Article 9 of the Regulation' (ibid.: 105). The Under Secretary in the Department of Trade and Industry in charge of the division concerned with regional policy explained the Government view that Article 9 did not apply to the UK.

The UK had not benefited in real terms from an increase in Structural Fund expenditure since the actual amount of funds per head of population in the Objective 2 regions had fallen:

> It says that in establishing and implementing the Community support frameworks the Commission and the Member States shall ensure that the increase in the appropriations for the Funds as provided in an earlier regulation has a genuine additional economic impact in the regions concerned and results in at least an equivalent increase in the total volume of official or similar (Community and national) structural aid in the Member States concerned... The contention of the United Kingdom Government is that since there is no real increase in Structural Funds money to the United Kingdom the remainder of that article does not apply in terms of the United Kingdom (House of Lords 1992: 25).

Not surprisingly, Commissioner Millan did not accept this line of argument, pointing out that 'even if that were true in overall terms for the United Kingdom, it does not avoid the fact that this article in the regulations provides that the additional money should have an impact *in the regions concerned* [emphasis added]' (ibid.: 90). Central government's long-standing claim to estimate the total amount of Structural Fund assistance to the UK and then add that to the total of public expenditure (e.g. local authority borrowing consents) seemed less solid in the light of the West Cumbrian example. Millan therefore argued that even if central government could demonstrate 'global additionality', it would still not be additional expenditure in the regions concerned but across the UK as a whole (House of Lords 1992: 90).

The impasse between UK central government and the European Commission over the principle of additionality was solid. An evaluation of the North East England CSF conducted for the European Commission confirmed the latter's suspicion over the failure of the UK government to respect the principle in full: 'in summary, if Structural Funds are used to hold down taxation, there will be practically no additional public expenditure at national or at regional level. If Structural Funds are used to supplement public expenditure, then at national level the majority of the increased public expenditure will be additional at the national level. However, it seems very unlikely that all of the increase in public expenditure will be additional in the region that the Commission designated for the increased expenditure' (PA Cambridge Economic Consultants 1991: 49). In complete contrast, the Secretary of State for Trade and Industry, Peter Lilley, presented the UK government line in stark terms when he argued that, 'given that there is going to be no increase in funds to this country, there is no requirement under this regulation for additionality to be demonstrated' (House of Lords 1992: 158).

As suggested above, this confrontation between the European Commission came to a head over the RECHAR Community Initiative, which 'brought out the position quite starkly' in the words of Commissioner Millan (House of Lords 1992: 91). Before considering the RECHAR dispute and the implications of its resolution, however, some consideration should be given to explaining what the Community Initiatives actually constitute.

4.3.5 *Community Initiatives*

The importance attached to *Community Initiatives* was another development to emerge form the Structural Fund reforms of 1988 which should be highlighted. The Regulations allow 'a delegation of powers by the Council to the Commission to allow the launching of programmes on the initiative of the Community' (European Commission 1991e: 53). Before the reform of the Structural Funds, four Community Programmes (considered in chapter 3) had been implemented under Article 7 of the 1984 ERDF Regulation. The 'STAR', 'Valoren', 'Resider' and 'Renaval' Community Programmes were both a development upon the previous non-quota section programmes, and the precursors of the Community Initiatives. Article 11 of the 1988 Horizontal regulation enabled the Commission to pursue its own programmes, with the intention of *complementing* the measures agreed with the member states in the Community Support Frameworks:

> By doing so, the Commission is laying the basis for a genuine Community policy since it focuses its initiatives in areas or sectors which it regards as paramount or essential for completion of the single market, and of particular importance for economic and social cohesion (European Commission 1991c: 10).

ECU 5.5 billion, pooled across all three Funds, was set aside for Community Initiatives for the 1989-1993 period. Although ECU 1.7 billion was reserved for the completion of the four Community Programmes adopted prior to 1989, the remaining ECU 3.8 billion allowed the Commission some room for manoeuvre in designing new programmes. This placed 9% of the total Structural Funds budget at the Community's discretion, to the extent that the Community could decide the priority issues to be addressed under this expenditure, outwith the mainstream CSFs. As Preston pointed out in relation to specific Commission programmes as early as 1983, 'by funding programmes with a sectoral bias for steel, shipbuilding, energy, tourism and Community enlargement problems, the Commission hoped to become involved at an early stage in planning regional development, thereby increasing the leverage of Community funds and facilitating additionality' (1983: 24).

One interview source suggested that 'there is no such thing' as a purely Commission influenced initiative.[15] The official went on to explain that Community Initiatives are usually drawn up in response to direct lobbying by local and regional actors in affected areas. By engaging the support of local and regional actors in the formulation of initiatives at an early stage, the Commission sought to enhance its position *vis-à-vis* national government and facilitate the implementation of its programmes with the support of local actors. Empirical evidence conducted by the author elsewhere indicates that the Commission generally looks favourably on lobbying by groups of regions articulating a shared interest in a specific development problem across different member states (McAleavey 1992; 1993).[16] Such evidence supports the claim of the European Commission that, 'Community Initiatives are transnational programmes but with an equally strong accent on the involvement of regional and local authorities in their preparation and implementation' (European Commission 1991e: 56). In other words, the European Commission sought to pursue the principle of partnership through Community Initiatives.

The administrative process for the implementation of Community Initiatives is similar to that for the implementation of CSFs, in that it is based firmly on the principle of programming. After consultation with representative regional associations, the full European Commission approves the guidelines for a specific initiative which is then published in the *Official Journal of the European Communities*. Member states wishing to benefit from such initiatives are invited to submit to the European Commission their proposals for eligible regions in line with the criteria specified by the latter, normally within a month of the date of publication in the *Official Journal*. The areas thereafter accepted as eligible in the Community list are invited to submit Operational Programmes addressing the priorities set out in the initial guidelines. These programmes are approved

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15 Senior Executive Officer, European Funds and Co-ordination Division (Programme Management Unit), Scottish Office Industry Department; Edinburgh, 16 January 1992.

16 Research shows the role played by the Association of European Border Regions (AEBR) in the formulation of the 'INTERREG' initiative with the objective of preparing border regions for the opening of the Single Market, and the role played by the Association of European Textile Associations (ACTE) in the formulation of the 'RETEX' initiative for regions affected by restructuring in the textile industry (McAleavey 1992). The role of the European association of local and regional authorities in mining areas of the EC in the formulation of the RECHAR Initiative for coal mining regions is well documented (Fothergill 1992; McAleavey 1993: 97-100).

by the European Commission and then implemented and monitored under separate regional-level Monitoring Committees. It should be noted that separate programme monitoring committees were established for each initiative under which a region was eligible, and that there could therefore be many committees in any one region.[17]

Between 1989 and 1993, eleven new Community Initiatives were approved. The RECHAR initiative for coal-mining closure areas, the INTERREG initiative for border regions, and the RETEX initiative for regions affected by closures in the textiles sector have already been mentioned. The other Community Initiatives, which are summarised in the European Commission's own guide (1991c) as well as a *Club de Bruxelles* report (1993: 77-88), need not be explained here. According to the European Commission's own assessment, the Community Initiatives provide a degree of flexibility, co-operation and innovation to structural actions in four main ways: they can encompass measures extending beyond national boundaries; they provide a 'genuine Community dimension' reflecting Community interests and priorities; 'under the new system of multi-annual programming, needs arise during the programme period, which it is not possible to foresee at the planning stage and which call for a special effort from the Community'; innovative by experimenting with new approaches (European Commission 1993b: 3-4). One problem, however, was that member states wanted to know as early as possible the themes and priorities for development which the Community intended to favour under the Community Initiatives. The *Green Paper on Community Initiatives* of June 1993 had the objective of encouraging a wide debate about the priorities. The Community put forward a number of options therein, and requested observations before the end of September 1993. The Commission acknowledged the confusion that could be caused by a plethora of Initiatives, each with its own regional-level Monitoring Committee, and therefore accepted the need to focus the Initiatives on five main fields of action: cross-border, transnational and inter-regional co-operation and networks; rural development; 'outermost' regions; employment and development of human resources; and the management of industrial change (European Commission 1993b: 14). As shown in Section 4.4, this later review of the operation of Community Initiatives reduced Commission discretion in the regional policy field.

[17] The Commission was well aware of the fact that if intervention took too many forms, the administrative burden could be very heavy. The extreme case of the region of Lorraine was cited as an instructive example in an interview with an official in the Unit for Co-ordination of Evaluation, DG XVI; Brussels, 4 October 1993. During the course of the first CSF, there were no less than ten separate EC structural programmes for the region. As well as a pre-reform NPCI and non-quota steel and textile programmes, there were Resider, RECHAR and INTERREG Community Initiatives supplementing the regular Operational Programme.

During the 1989-1993 Structural Fund round, the Community Initiatives gained a high political profile in the UK with the prolonged dispute between the European Commission and the UK central government over the RECHAR Initiative. This is considered below. As well as illustrating the extent to which the UK government was able to maintain its own interests despite apparently backing-down to European Commission pressure, the 'RECHAR dispute' has been cited by Marks (1993) as evidence of 'multilevel governance' in the implementation of structural actions in the UK.

4.4 Recent Theoretical Contributions: The Concept of 'Multilevel Governance'

In general terms, the study of policy-making in the European Community has benefited in recent years from the application of new theoretical approaches which facilitate more rigorous analysis than the grand integration theories of the past considered in chapter 3. Approaches drawn from new institutionalism (Bulmer 1994), rational choice and game theory (Ward & Edwards 1990), the policy networks literature (Peterson 1992), regime theory (Weber & Wiesmeth 1991: 258-259), and theories of regulation (Majone 1993a) provide tools for a greater understanding of the individual stages and arenas of the Community policy-making process. Moreover, these tools are usually applied to disaggregated policy fields than to the Community system as a whole. No single theory or methodological approach can capture the complex and dynamic process of integration in Europe (Dehousse & Majone 1993). This is not to suggest, however, that only descriptive accounts of current developments are possible. The task is rather to determine the appropriate tools with which, and the level of analysis at which, to approach the stages and mechanisms of policy-making in the EC. Caporaso and Keeler (1993) identify a 'new wave' of research, to which they attribute differentiated theoretical perspectives applied to disaggregated aspects of the integration process. In summarising attempts to conceptualise the overall institutional structure of the EC, they point to a growing dissatisfaction with treating institutional outcomes as lying somewhere on an intergovernmental-supranational continuum.[18]

In the field of European regional development policy, recent contributions to the literature have reflected this increasing sophistication by utilising a variety of approaches from different theoretical traditions. As suggested above, Deeken uses the concept of the

[18] Notwithstanding this, it would be inaccurate to claim that the tool kit of international relations has been completely rejected in the study of EC policy-making. A new and challenging formulation of 'intergovernmentalism' has been elaborated by Moravcsik (1991; 1993), while Burley and Mattli (1993) have recently revised neofunctionalist theory to explain supranational legal integration and the role of the European Court of Justice therein.

'policy entrepreneur' to trace the European Commission's 'role, tactics, and ult success' in the development of regional policy at the European level (1993: 3). Hooghe (1993) uses the 'bureaucratic politics' approach to assess the adaptation of the Commission to the 1988 Structural Fund reforms. Smith (1994) and Conzelmann (1994) testify to the fashion for adopting a 'policy networks' approach to the study of European regional development policy. Anderson (1991b), as well as adopting a policy networks approach to explore the domestic and international consequences of developments in European regional policy, sketches three possible scenarios for future governance in this field: the maintenance of the status quo; the emergence of a 'Europe of Regions'; and a variegated set of outcomes. On the basis of an analysis of the domestic policy networks in Britain and Germany within which national and sub-national responses to Community policy are embedded, he concludes that a variegated set of outcomes is most likely. Under this scenario, reiterated in the recent study by Hooghe and Keating (1994), he finds that 'divergences in the gatekeeping capacities among member states become more pronounced' (1991b: 446). The tendency of many earlier studies to treat institutional arrangements as lying somewhere on an intergovernmental-supranational continuum is absent from these studies.

Marks (1992; 1993) is the most widely cited of the authors currently considering the 'vertical' procedures for the implementation of Structural Fund expenditure programmes within EC member states. It is on the basis of his research in the field of the Structural Funds that Marks is cited by Caporaso and Keeler (1993) as one of scholars of the 'new wave' most dissatisfied with viewing institutional outcomes on the intergovernmental-supranational continuum. Marks makes a number of extremely useful points regarding the 1988 reforms which are highlighted in the introduction to this chapter. He suggests that 'the Funds are in the process of being transformed by several open-ended, more or less contested innovations, whose consequences are likely to be only partly those intended by the makers' (1992: 206). Moreover, 'the reforms have created new and untried issues of governance and jurisdiction; they have spawned new arenas in which decisionmaking will take place; and they have multiplied the number and type of groups that contend for influence over substantive outcomes and, more important, for control over the decisionmaking process' (ibid.: 214-215). Neither of these suggestions are disputed herein. On the contrary, they very helpfully indicate the new interdependencies in the field of European regional policy. However, the wider conclusions drawn by Marks regarding the nature of Structural Fund programmes in the UK and the role of the European Commission therein, are not borne out by the evidence he provides.

Marks suggests in a study of the 1988 reforms published in 1992 that, 'in short, the reforms have set in motion a process of institution building that strengthens the Commission; that attempts to technocratize - and in a narrow sense depoliticize - a key and growing policy area; and that, by creating direct links between the Funds and regional political institutions, challenges centralized decisionmaking within member states' (1992: 212). The relatively modest conclusion of the 1992 study is that the institutional outcome of this process 'cannot be understood as some point along a continuum ranging from a loose confederation of strong member states on the one hand to a federal Euro-state on the other. Formulations constrained to member states and Community institutions miss a critical element of the whole picture: the role of subnational governments' (1992: 222-223). In his major 1993 piece, however, Marks made the wider claim that 'beyond and beneath the highly visible politics of member state bargaining lies a dimly lit process of institutional formation, and here the Commission has played a vital role' (1993: 392). This claim too has been supported in the above analysis of the principles underlying the 1988 reforms, but it is suggested herein that Marks simply does not provide the data to support his claim that the Commission is *the key actor* in the process of policy-making and implementation. Moreover, he identifies 'a centrifugal process in which decision making is spun away from member states in two directions: up to supranational institutions, and down to diverse units of subnational government', which is reminiscent of the Europe of the Regions visionaries he himself dismisses as having had little impact on the theory or practice of European integration (1993: 402).

The primary evidence Marks presents on the 'vertical' process of implementation are upon the apparent (but never fully implemented) back down by the UK government after a confrontation with the European Commission over the additionality of RECHAR funds. At the most basic of levels, Marks does not give sufficient attention to the fact that central government chairs, and has an effective veto over membership of, the Committees comprising the regional partnership. This is witnessed in the UK by the refusal of central government to allow trade union representatives to participate in the process despite the repeated requests of the European Commission. This is only one example in which power (the power to determine who participates) has been pulled neither up nor down. Numerous examples could be found of the strength of central government in this field: for example, the way in which the spirit of the additionality requirements is still ignored, or the way in which central government frames the whole project selection process within the programming process (see chapter 7). However, it is not the aim herein to demonstrate that central government (and not the European

Commission) is 'the main actor' in the process of regional policy-making and implementation in the UK. Given the exchange-based conceptualisation of power adopted in this framework, it makes little sense to speak of *the* single main actor. However, it is suggested that Marks overestimates the role of the Commission: the disagreement over core objectives among key actors, coupled with the impossibility of preparing a 'complete' regional development contract specifying the action to be taken under all eventualities renders the bargaining over programmes incomplete. It is the strength of central government in the UK in the bargaining process *after* the programme has been agreed, and the opportunism of domestic actors in that process which mean that the Commission is still constrained in its ability to shape the ultimate implementation of ERDF programmes.

Of course, to a certain extent, the difference of emphasis between Marks and that adopted herein represents a recurrent methodological distinction in political science. The distinction is that between 'equilibrium models' and the 'process orientation'. While the former often provides a *snapshot* of institutional arrangements and relationships of power to explain the role of individual actors in a given decision, it often obscures the *process* by which the actors arrived at those institutional arrangements in the first place. 'Process' models, by contrast, often obscure less but over-emphasise the explanatory power of the dynamics of a given process. Specifically, in the case under discussion, Marks essentially presents a process model seeking to explain what he perceives as the autonomy of the European Commission in regional development policy. He explicitly identifies a 'centrifugal process in which decision-making powers are spun away from member states' upwards towards the Community and down towards sub-national actors. It is therefore suggested that Marks places undue explanatory weight on the dynamics of the process without actually providing evidence of the specific institutional arrangements and decision-making process in any given region. The case study of Western Scotland presented below seeks to redress the balance.

4.4.1 *The 1993 'Re-reform' of the Structural Fund Regulations*

In his earlier work on the Structural Funds, Marks himself recognises the possibility that the European Commission's enhanced role in this policy field is not written in tablets of stone. He identifies three sources of uncertainty over the Commission's position. These include future enlargement, the fact that implementation of the reforms cannot be taken for granted, and the possibility that member states may claim back some of the competencies passed to the European Commission in 1988.

Consequently, 'despite the recent growth of the Commission's influence in allocating the structural budget across priorities and member states, the member states dominate the budgetary process as a whole and may claim back the powers they have ceded to the Structural Funds. The Funds have gained influence in the allocation process because they dispense the budget, but their role is still in flux' (1992: 218-220). In the event, the Structural Fund Regulations underwent a 'reform of the reforms' in 1993, noted in passing by Marks (1993: 396), which did result in member states claiming back many of the functions ceded to the European Commission in 1988. The 1993 re-reforms illustrated that the changes, providing increased discretion for the European Commission over funding, were not irreversible.

The importance of *trends* in the allocation of decision-making power in this field should be acknowledged. Coombes has rightly suggested that the 1988 reforms intensified 'a trend over several years towards more discretionary use of the funds' for the European Commission (1991: 143). Wallace earlier wrote in her criticism of intergovernmentalism (1983) of the cumulative nature of the competencies gathered by the European Commission in this field over time. However, it would be a grave error to fall into the trap of assuming that this accumulation of competencies in the field of regional development policy at the Community level is unidirectional. The 1988 reforms necessitated a 'reform of the reforms' after five years. While the original reforms had been agreed in a period of optimism and a general expansion of Commission competencies during President Delors' first Commission, the Regulations were revised again in 1993 during a period of pessimism partly occasioned by the difficult ratification of the Maastricht Treaty. Moreover, the Regulations were re-negotiated in 1993 against the background of the heightened debate on subsidiarity, with the UK government maintaining that this principle implied the return of decision-making competencies to the member state level (while the allocation of competencies to sub-state levels was a matter for the individual central governments). From a Commission perspective, the Structural Regulations fell victim to this new mood as the 1993 Regulations represented 'a retreat to a more national style of policy-making' (Hooghe & Keating 1994: 386).

The conclusions of the Edinburgh meeting of the European Council in December 1992 invited the Commission to prepare proposals to revise the Structural Fund Regulations. The Edinburgh Conclusions also stated that the basic principles of concentration, programming, partnership and additionality laid down in 1988 should continue to guide the implementation of the Structural Funds.[19] The actual text of the

[19] Much of the information on the conclusions of the December 1992 Edinburgh Summit presented in the following pages was gathered from interviews with Scottish Office officials. The European Funds and Co-

1993 Regulations, however, shows a loosening of the member states' commitment to these principles. In order to illustrate the fact that responsibilities transferred to the European Commission in the field of regional development policy can be reclaimed by the member state governments, four features of the 1993 Regulations should be highlighted. Firstly, with regard to the principle of *concentration* it was decided that member states should draw up the initial list of eligible areas and submit these to the European Commission, despite the Commission's recommendation that the 1989 arrangements should be maintained. This was a reversal of the 1988 provisions under which the Commission had drawn up the initial list of Objective 2 regions according to Article 9.2 of Regulation 2052/88. As before, however, agreement over the final list was shared between the Commission and the member states, but this essentially allowed the Commission the unenviable task of cutting down lists to meet population ceiling requirements.[20] Secondly, the principle of *programming* also fell victim to the mood of subsidiarity that surrounded the Edinburgh Summit and the British Presidency more generally. The conclusions of the Edinburgh Summit called for decision-making procedures and their transparency to be improved, and for administrative procedures to be simplified. At the same time, however, financial control should be strengthened. The Commission therefore had to find a balance between respect for the principle of subsidiarity and its responsibility to exercise appropriate financial control. The planning procedure outlined above was ultimately cut back from three stages to two as the member states could submit a *Single Programming Document* incorporating the Regional and Social Conversion Plan and applications for assistance. The Commission still responds, but with a single decision incorporating the details previously set out in the Community Support Framework and the Operational Programme. Thirdly, with regard to the principle of *partnership*, the role of member states in designating the partners to be involved was emphasised. Finally, following the dispute with the UK government over the principle of *additionality* (see below), requirements were loosened to take into account broad macroeconomic factors constraining member state expenditure choices.

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ordination Division of the Scottish Office Industry Department worked closely with the London-based Cabinet Office in the organisation of the summit.

[20] The list of Objective 1 regions is still decided in the Council of Ministers. Under other Objectives, member states could submit over-bids, then blame the Commission when the bids for assistance had to be scaled down. Objectives 3 and 4 were combined in a new Objective 3, and to its definition were added 'those threatened with *exclusion* from the labour market'. A new Objective 4 was established under the ESF 'to facilitate workers' adaptation to industrial changes and to changes in production systems' (European Commission 1993b). The later introduction of a new Objective 6, relating to sparsity of population and designed to allow a share of resources for new Nordic members states, has been noted by Hooghe and Keating (1994: 385)

In all these areas in which the European Commission had gained significant competencies in 1988, there has been a marked retreat to a greater involvement of member state government with a corresponding reduction in the Commission's room for manoeuvre. This retreat was also notable in the case of the Community Initiatives, as is evident in the discussion of the *Green Paper* in Section 4.3.5 above. The Committee for the Community Initiatives was to be set up under the chair of the Commission, but comprising representatives of the member states, to oversee the Commission in this regard.

Although the time-frame of the case study presented in the chapters which follow does not incorporate the post-1993 period, these re-reforms have been noted here for the sake of completion, and more importantly to warn against the dangers of placing faith in over-deterministic dynamics. If powers in this field were not exactly 'spun back' from the EC and subnational actors (downwards and upwards respectively) to the member states, it is certainly the case that the dynamic process identified by Marks (1993) stuttered, at least temporarily. The following section of the chapter summarises briefly the RECHAR dispute and its outcome. Not only does this section provide further evidence of the way in which member states retain a significant room for manoeuvre in how to implement agreements made with the European Commission, but it also provides highly relevant analysis of the problems of additionality and 'transparency' for the subsequent case study of Western Scotland.

4.5 The RECHAR Community Initiative and Commission Advances on the Principle of Additionality

The fact that the extent to which ERDF expenditure in the United Kingdom is 'additional' to that which would otherwise have been spent in eligible regions has been fiercely disputed between the European Commission, central government and local authorities since the establishment of the Fund in 1975, is emphasised throughout the preceding analysis. Chapter 3 in particular stressed that the ERDF has primarily been regarded in UK central government departments as a partial reimbursement on the UK's net contribution to the EC budget. As such, the receipt of ERDF monies by central government has not guaranteed an observable increase in regional policy expenditure in the UK's eligible regions. Following the high profile dispute between the European Commission (in solid alliance with local authorities) and the UK government over this issue, however, new government guidelines apparently brought an end to the problem of non-additionality in 1992. It is therefore worthwhile sketching the example of eligible authorities in Scotland to show how central government in fact retained control over the ERDF expenditure process, despite the 1992 back-down under European Commission and local authority pressure. It is suggested that, although the new guidelines increase the *transparency* of the ERDF expenditure process, additionality has not been guaranteed. On the contrary, the new problem of *subtractionality* faced by local authorities since 1992 is explained. This distinction is of importance for the case study which follows.

The distinction between capital and revenue expenditure in UK domestic expenditure arrangements for local authorities, despite finding no equivalent in the ERDF, is again relevant here. While central government essentially blocked revenue expenditure projects such as indigenous business support schemes (see the opposition to Article 15 measures under the 1984 ERDF Regulation), ERDF receipts in respect of capital-funded infrastructure projects were indeed passed on by central government to local authorities. The key point to note, however, is that there was no corresponding rise in the capital expenditure ceiling of the authority. To repeat, the logic of global additionality was that expected ERDF receipts had already been incorporated in the pre-set capital expenditure ceiling. The practical problem this presented for many local authorities was that they were not able to spend the grants they had been allocated from the ERDF as they had invariably already spent up to their pre-set capital expenditure ceilings. Although some financial benefits did accrue to authorities in receipt of ERDF through reduced borrowing requirements and hence reduced interest payments, as explained by Chorley (1986: 28), central government's stated policy was that receipt of ERDF grants should not allow additional projects to be undertaken. In line with the perceived need to restrain public expenditure generally, ERDF grants did not confer automatic increases in the capital spending ceilings of public authorities.

This UK government interpretation of additionality with respect to local authority infrastructure projects was maintained until 1992. Although short-term beneficial impacts on revenue accounts brought about by savings on loan charges provided an incentive for individual authorities to continue pursuing ERDF support, the Regional Fund remained a very blunt tool for regional development purposes. Far from an additional policy for the correction of regional imbalances within the EC, the ERDF provided a simple reimbursement for capital spending that had already been undertaken, thereby allowing central government to reduce public borrowing requirements. At best, the ERDF safeguarded domestic levels of expenditure in eligible regions, conceivably softening public expenditures cuts in the area of regional policy. The text of Article 9 of the 1988 Horizontal Regulation, however, testified to the centrality of the principle of additionality to the European Commission strategy of regional development

The showdown between the European Commission and UK central government over additionality emerged in the context of the RECHAR Community Initiative. As a policy intended to assist in the economic and social conversion of the coal mining areas of the EC, its origins have been examined elsewhere (Fothergill 1992; McAleavey 1992). The guidelines approved by the Commission on 17 December 1989 to address the problems of coal mining areas were published in January 1990. Member states wishing to benefit from RECHAR were required to submit to the Commission their proposals for the detailed definition of coal-mining areas in conformity with specified criteria within one month of the notice. Given the fact that to satisfy the conditions for eligibility, areas had only to show a loss of at least 1,000 coal-mining jobs since January 1984 (or that announced job losses would take the total lost over 1,000), there was never any doubt that British coal-mining communities stood to gain a great deal from the 300 MECU set aside for RECHAR. The areas thereafter accepted in the Community list were invited to submit Operational Programmes with the priority of restoring the local environment, modernising social infrastructures in mining villages, promoting tourism or providing vocational training (European Commission 1991c: 21).

In April 1991 the Commission published the list of the 28 eligible coal-mining areas in six EC member states. Twelve of these areas were in the UK. In partnership with the relevant authorities (British Coal Enterprise[21] as well the local authorities and training agencies), central government drew up a series of Operational Programmes which were submitted to the European Commission on 26 July 1991. This marked the end of the implementation of the RECHAR initiative in the UK for over 18 months. In this context, it is simply important to note that the timing of the announcement of the RECHAR initiative gave the Commission a weapon in its dispute with the UK government over the additionality of ERDF expenditure, at a time when it was seeking information from all member states to verify respect of the additionality principle. Capital credit approvals for local authority spending in the 1990-91 year had been set in October 1989, while the RECHAR initiative was not agreed by the EC until December 1989. The Commission therefore convincingly argued that it had been impossible for the UK government to incorporate expected receipts into the global levels set two months before the Initiative had even been announced. The Commission consequently blocked the UK's allocation of £120 million under RECHAR on the grounds that the additionality principle was not respected. As a result, no money was released and no further progress was made for 18 months because of the deadlock over additionality.

[21] A body set up in the wake of the miners' strike to support and financially assist the small business sector in coal-mining areas of the UK.

During the dispute between UK central government and the European Commission, there were cabinet splits and several cabinet documents leaked to the British press (McAleavey 1993). The Secretary of State at the Department of the Environment, who had paradoxically written in his book, *The Challenge of Europe*, that 'without the principle of "additionality", Community funding will become a farce' (Heseltine 1989: 53) was at the centre of the dispute. A document designed by the Environment Secretary to gain the support of the Secretaries of State for Scotland and Wales to force a change of opinion within the cabinet upon the ministers at the Department of Trade and Industry and the Treasury, was leaked to the press and provided an excellent summary of the Commission's position:

> The weakness of Treasury arguments is that there is no visible evidence that expenditure is necessarily higher than it otherwise would be. Even accepting it is, there is no proper mechanism for ensuring it is *regional* expenditure that is higher than it would otherwise be. The Commission realised this and are suspicious largely, we believe, because UK practice does not make transparent or capable of proof the distribution of additional resources.[22]

It was against this background of leaked documents and cabinet splits that meetings continued over several months between the UK central government and the European Commission to resolve the impasse and release the frozen funds. In the event, the UK government's climb-down was announced by the Trade and Industry Secretary, Peter Lilley, in the House of Commons on 17 February 1992. While the existing system for controlling public expenditure would remain unchanged, from April 1993 the government's spending plans would indicate the European grants separately for each spending programme: the government would no longer argue that it incorporates grants globally. More importantly, supplementary credit approvals would be approved for any authority receiving European grant. In other words, an authority in receipt of an ERDF grant to aid capital expenditure would have its capital spending ceiling increased by the value of the grant. On this basis the Commissioner for Regional Policy then agreed, after 18 months of deadlock, to release the funds earmarked for programmes in the UK.

It is important in this context to concentrate on what happened *after* the apparent back-down by the UK government following the dispute. The then Trade and Industry Secretary, Peter Lilley, had made his statement in the House of Commons on 17 February 1992 with the shadow of an impending general election looming large. As the

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[22] Quoted in *The Independent* 28 January 1992 p.4.

government agreed that supplementary spending approvals would be authorised for any local authority receiving ERDF assistance, thereby raising its capital ceiling and allowing the authority to spend the additional resources, it seemed that the European Commission had won the battle for additionality. In reality it had won a battle for the *transparency* of receipts, but at a hidden cost to local authorities in the eligible regions of the UK.

The publication in February 1993 of the government's expenditure plans for 1993-94 to 1995-96 confirmed that the principle of ERDF 'additionality' had apparently been accepted by central government. *Serving Scotland's Needs* explained how 'a new free standing public expenditure programme has been established to help meet the Government's undertaking to the European Commission that all payments of ERDF grant will be transparent and confer additional spending power on grant recipients' (Scottish Office 1993b: 41). Not only had a separate, transparent expenditure pool been set up to match ERDF receipts, thereby ending the obscure process of global additionality, but it was stated that 'in future, all payments of ERDF will confer additional spending power, and local authorities' capital programmes will be augmented accordingly' (ibid.: 175). To this end, £120 million was set aside in the separate expenditure pool. It was immediately apparent to local authorities, however, where the expenditure pool had come from.

In March 1993 the Scottish Office issued formal letters of borrowing consent to local authorities to meet capital expenses for the year 1993-94. The basic principle that any ERDF grant payment would automatically generate an equivalent amount of supplementary capital consent was reaffirmed. Permission was announced for Scottish local authorities to spend a total of £553 million in 1993-94 on capital projects, with the possibility of spending around a further £75 million from the new £120 million ERDF pool. However, controversy surrounded the issue of where the £120 million had been found. The Convention of Scottish Local Authorities (COSLA) argued that £75 million of the £120 million pool had been 'creamed from' local authorities' capital spending totals, and hence that they were being asked to compete with other bodies eligible for ERDF grants simply to get their own money back (Horsburgh 1993). Strathclyde Regional Council explained how the Scottish Office had 'top-sliced' a substantial proportion of local authorities' Roads and Transportation and General Services capital budgets (the main programmes which contain projects eligible for ERDF assistance) in order to create the separate ERDF pool. Central government thereby maintained the past logic of global additionality by slicing out that element which it always claimed was built into capital budgets to cover expected ERDF receipts. The cut experienced by local authorities in their capital allocations to create this separate pool of expenditure has been labelled *subtractionality*.[23]

The implications of the new phenomenon of subtractionality, where budget allocations are top-sliced to create a pool that is subsequently reallocated to bring authorities back up to their ex-ante baseline expenditure, were spelled out in a Strathclyde Regional Council paper:

> In order to achieve the overall levels of capital consent provisionally allocated last year, the Council would have to submit applications and thereafter claim and receive ERDF payment on approved projects. Since the prospects of any particular project being approved for ERDF cannot be predicted with absolute confidence, an additional element of uncertainty has been introduced to the capital planning process (Strathclyde Regional Council 1993: 6).

It is clear that the new procedures demonstrate the *transparency* of ERDF payments by issuing supplementary spending approvals from a distinct budget line. However, they do not provide for *additionality* as ERDF receipts still do not lead to an increase in spending in the region over and above that previously planned on relevant types of projects. In the past, ERDF assistance conferred no additionality in the sense that no new projects could be undertaken by local authorities on receipt of the grant. Now, in the era of *subtractionality*, local authorities' planned capital projects are falling by the wayside in the wait for ERDF assistance. The implications of the new expenditure arrangements are addressed in greater detail in the case study of Western Scotland.

4.6 Reprise and Summary

The 1988 Structural Fund Regulations radically altered the provisions for the implementation of ERDF actions. This chapter has focused on key aspects of the changes, against the background of some of the new theoretical contributions that the changes have provoked. It should be emphasised, however, that some of the lessons of the earlier implementation debate remain instructive in signalling key points of interest. In particular, Berman's distinction between 'programmed implementation' and 'adaptive implementation' (1980) is particularly instructive for understanding the ERDF process. This was already picked up by Rhodes (1986) in his account of implementation and sub-

[23] The widespread currency of this term was confirmed in several interviews with senior members of the regional partnership in Western Scotland in late 1993. It also appeared that only £70 million of the separate £120 million expenditure pool was sliced from local authorities' capital budgets, the rest coming from the budgets of other publicly funded bodies in receipt of ERDF support.

central government, and also by Wallace in her account of 'implementation across national boundaries':

> The proponents of an international policy, notably the officials of international organisations and most strikingly the Commission of the EC, will often seek as tight and programmed a strategy as they can secure in the hope of leaving as little leeway as possible for discretion and slippage to national implementers. Yet to be realistic they have to recognise that their cherished policies need to be skewed and to some extent distorted to carry along different governments and diverse requirements and often contrary interests. This suggests that adaptiveness is often the only sensible strategy to pursue (Wallace 1984: 142).

As Berman pointed out in his original piece on programmed and adaptive implementation, there is no universally best way to implement policy (1980). This point was also echoed by Rhodes (see chapter 3) who argued that the European Commission fails to reflect the variety of possible implementation strategies and usually seeks to employ programmed strategies of implementation which try to ensure uniform and precise implementation (1986). In terms of the contracting model, these studies have concentrated on the task of co-ordination at the expense of motivation. Nevertheless, they recognise that programmed strategies translate Commission intentions into practice at the cost of unresponsiveness to local conditions and uneven and slow implementation, whereas adaptive strategies would generate considerable slippage from initial objectives. Moreover, Rhodes rightly argues that distributive policies (such as the ERDF) demand the greater flexibility allowed by adaptive implementation strategies. In order to overcome its fear of substantial slippage in policy goals associated with adaptive implementation, he suggested that the Commission could, among other options, ensure that the switch from project to programme financing as the basis for fund distribution was fully accomplished. Rhodes believed that such a shift in the method of financing would allow the Commission to select projects congruent with EC aims (1986: 55).

As shown in this chapter, the shift from individual project to programme financing has gradually taken place under the Structural Fund Regulations. Individual project financing (outwith the framework of a Commission-approved programme) is a thing of the past as the Commission now seeks to frame regional development contracts with national, regional and local actors. And yet, Rhodes' hypothesis that such a shift in the method of financing would allow the Commission to select projects congruent with EC aims *has yet to be tested.* The Commission, following intense negotiations with the

Department of Trade and Industry, can approve the broad strategy documents (CSFs) for eligible regions. However, the actual selection of projects below a fixed expenditure ceiling (under which the vast majority of expenditure falls), lies with national and local actors operating within a process tightly constrained by central government's public expenditure concerns. An essential point to note in this context is the constraint placed upon DG XVI's action by the method of *part-financing* projects: at present, DG XVI cannot fully fund a project of its own in an eligible region. Instead, it must rely upon local level actors (or central government) bringing forward projects that match Commission aims. The Commission can then contribute to the costs of the project. As DG XVI may seek to develop the strategic framework within which these projects are brought forward (the CSF), however, the way in which the strategy itself is formed influences the Commission's capacity to shape the ultimate form of the contract. In other words, the European Commission may seek to influence the spending priorities of central government and the local actors, who will try to ensure that a sufficient number of suitable projects is submitted in order to 'draw down' ERDF resources.

The ERDF implementation process necessarily involves elements of *both* programmed and adaptive strategies of implementation, as shown in Section 4.3 above. The European Commission, by seeking to develop strategic programmes, tries to impose a fairly tightly designed response to the needs of a region, albeit by co-ordinating local actors in the preparation of that strategy. Such a strategy of programmed implementation is tempered by the fact that the form of intervention is ultimately *part-financing* of local actors' actions and as such, the ultimate deliverers of the policy cannot be excessively controlled. Moreover, the 'situational parameters' (Berman 1980) of ERDF policy do not lend themselves to the imposition of a fully programmed strategy. The level of uncertainty over the validity of the theory underlying the policy, the degree of conflict over the policy goals, the opportunistic behaviour of key actors, the instability of the policy environment, and the complexity of the multi-level institutional arrangements are all parameters which ensure the inclusion of elements of an adaptive implementation strategy. In short, only an incomplete contract can be prepared. The possibility that appropriate elements of programmed and adaptive implementation strategies may be required simultaneously was not given sufficient weight in Berman's original framework.

This chapter has provided a detailed analysis of the key principles of concentration, programming, partnership and additionality, primarily how they have evolved at the European level under the impetus of the European Commission. The advances made by the Commission on these principles have been driven by a technocratic logic. This is seen clearly in the definition of 'regions' employed by the European

Commission and in DG XVI's neutrality with respect to the structure of the regional administrations it deals with. The strengthening of the key technocratic principles, and their relative weakening again in the 1994 re-reform of the Regulations, determine the extent to which the European Commission has been able to fashion a system of regional development contracting with relevant member state, regional and local actors. Chapter 5 below illustrates just how such contracts have been drawn up in Western Scotland, before chapters 6 and 7 illustrate how bargaining continues even after the preparation of the contract.

This chapter has also placed the analysis of the 1988 Structural Fund reforms against the background of new theoretical contributions in the field, in particular the work of Marks (1992; 1993). It was suggested above that when adopting a dynamic, longitudinal perspective, Marks' contribution is extremely useful in highlighting the increased role *over time* for both the European Commission and sub-national actors in the ERDF implementation process. Nevertheless, Marks broad conclusion with regard to the role of the European Commission is questioned in this chapter. It should be emphasised that it is not the intention of this research to provide a snapshot of current implementation arrangements in an attempt to refute his more dynamic perspective. However, the accuracy of Marks' conclusions in the context of ERDF programmes in the UK is disputed for the following reason: the European Commission, despite an impressive increase in its role over recent years, cannot be viewed as 'the key actor in the process of policymaking and implementation' in the UK (1993: 399). An analysis of the Commission's dependency on central government and sub-national actors in both the ex-ante process of preparing the development contract, and in the ex-post process of executing the contract, reveals the pattern of interdependencies (albeit hinted at in the concept of multilevel governance), which implies that the European Commission is only one actor in a complex relationship of territorial political exchange. Moreover, the examination of the 1993 're-reform' of the Regulations and the ultimate compromise of 'subtractionality' in the wake of the apparent back-down of the UK government over additionality presnted above, both caution against the danger of the over-deterministic dynamics implied by the stress multilevel governance places on the 'centrifugal process' by which decision-making is spun away from member states upwards to supranational institutions and downwards to sub-national actors.

The Secretary of State for Trade and Industry at the heart of the RECHAR dispute, Peter Lilley, illustrated the challenge faced by the European Commission in its efforts to carve out a greater role in contract preparation and contract enforcement. Like the civil servants in his Department before him, he indicated support for a simple cash transfer system between member states, addressing the compensatory function of the Structural

Funds but cutting out 'the bureaucratic chain'. According to Lilley, straightforward payment of cheques from richer to poorer member states 'would be a much simpler process, though I fear our chances of persuading our partners on the continent that such elegant simplicity should be pursued rather than the complex ramifications which some of them seem attached to in the present system are quite low' (House of Lords 1992: 155).

This comment illustrates a crucial point. The ERDF, since the strengthening of the key principles of the reform, is no longer a simple transfer policy. If it involved a simple transfer of 'cheques' between member states, all the necessary bargaining could be contained in the ex-ante phase of deciding how much each member state should receive. The Commission's role in implementation would involve the relatively straightforward tasks of managerial control and financial auditing. However, the gradual evolution of the ERDF towards the strategic development role examined in this chapter has established a continuing exchange relationship between the European Commission and domestic actors in which bargaining extends across the whole process. The following case study examines the bargaining involved in the preparation of the contract, the governance structures in the region through which the Commission seeks to shape the implementation of the contract, and the extent to which the projects ultimately financed fulfil the terms of the contract. In other words, attention now switches to the regional level to assess whether the Regulations examined in chapters 3 and 4 provide the Commission with the tools to influence this bargaining across the implementation process.

Chapter 5. ERDF Programming: Partners in the Preparation of the Regional Development Contract

> Time and again various officials connected with the EDA bemoan the fact that there was no comprehensive economic development plan for the city... Part of the insistence on an economic plan undoubtedly stems from a belief that it would do Oakland good to have it. But what the EDA people really wanted, though they were only occasionally able to verbalize it, was the political control and agreement symbolized by the plan. They were too far away and too busy with other things to dream of running the city of Oakland. They could not even imagine intervening on a constant and effective basis. No, their one devout wish was that the city would organize itself and present the EDA with a list of priorities that would include a series of well-worked out projects that it could implement (Pressman & Wildavsky 1973: 140).

> We give more money in Structural Funds than we receive in return. It is our money. The government will decide how the money is spent, and that is that (Leigh, Parliamentary Under-Secretary of State for Industry and Consumer Affairs quoted in House of Commons Parliamentary Debates 1991: col. 264).

5.1 Introduction

This chapter analyses the experience of ERDF programming in Western Scotland. As such, it is the first of three chapters constituting an in-depth case study of the implementation of ERDF actions at the regional level. The aim of this case study is to test the applicability of the model of policy implementation as incomplete contracting developed in chapter 2. Does the information presented in this case study suggest that the model provides an accurate description of the process of policy implementation? More importantly, what aspects of the process does the model highlight, and does the model provide useful analytical insights? Each chapter of this case study, examining a key phase in the implementation process, therefore addresses a set of questions derived from the model and designed to assess its accuracy and utility. This first chapter of the case study deals with initial attempts to co-ordinate a diverse group of partners in the preparation of the regional development contract.

Following the incomplete contracting model, ERDF programmes are conceptualised herein as contracts among the partnership. Chapter 2 emphasised that contracts do not require to be written down or enjoy legal status in order to be considered as such. In the case of ERDF programmes, written documents stating the intention of all partners to co-ordinate their actions have indeed existed for the last decade. However, the strength of the concept of contracting is that it also highlights less obvious, unwritten or implicit dimensions such as trust and shared beliefs. Therefore, although the term 'contract' is used in this chapter to refer to the specific documents prepared by the national, regional and European actors in partnership, it also refers to the wider agreement of the actors simply to recognise their mutual interests and to modify their behaviour in ways that are mutually beneficial, to repeat Majone's observation on the nature of contracting (1994: 13). As suggested in chapter 4, the essence of programming in the case of the ERDF lies in agreeing contractual responses to the 'joint decision and reciprocal commitment' called for by the European Commission (1989: 30).

More generally, this chapter suggests that given the continuing importance of the Fund's compensatory function, the UK central government has not always been willing to recognise its interest in co-ordinated action with the European Commission and a multiplicity of sub-national actors in this policy field. The quotations introducing this chapter hint at the tension surrounding ERDF programming in the UK. Pressman and Wildavsky's early observation on the desire of Economic Development Administration (EDA) officials in Washington to be supplied with a rational development strategy drawn up by local actors in California is mirrored two decades later in the desire of the European Commission to be presented with such a development framework from regional and local actors in regions eligible for Structural Fund support. Extremely limited in its ability to fund projects on its own in eligible regions, the Commission sought to introduce a system of development programming whereby it could have a greater influence on spending priorities than it enjoyed under the previous system of rubber-stamping thousands of individual projects annually. However, the accompanying quotation above from the Parliamentary Under-Secretary of State for Industry and Consumer Affairs, although an exaggerated statement of government policy on the Structural Funds, illustrates the difficulty faced by the European Commission in seeking to shape the implementation of ERDF programmes in the UK. The way in which this tension was manifested in practice is revealed in this examination of the programming process in Western Scotland between 1984 and 1994.

There has been very little academic analysis of how ERDF programming requirements have actually been met in the UK. At best, there have been general statements of the way in which UK central government has tried to avoid compliance with the principle. Anderson, for example, states that 'although the development-programme requirement created new responsibilities for Whitehall civil servants, they were able to strip it of any legal or policy status', adding that one civil servant in the Department of the Environment claimed that the development programme 'is recognized essentially as a contrivance... It is supposed to be a strategic document, but it is really rather more of a shopping list' (1992: 74-75). A more detailed analysis of the specific nature of programming is called for to examine the extent to which this statement is accurate, and if indeed it is, *how* central government is able to strip the requirement of significance.

As suggested in the preceding chapters, ERDF programming sets up an on-going, complex exchange relationship between the European Commission, the member state, and regional and local actors. Chapters 3 and 4 illustrated how the evolution of the ERDF from a simple transfer mechanism to an active development policy has resulted in a greater degree of interdependence between these actors. The European Commission is, of course, unable to prepare and implement ERDF programmes on its own. DG XVI is neither omniscient, nor does it claim to be. Rather, it recognises that the information required to prepare a coherent development plan for any given region is dispersed. As shown below, DG XVI simply does not have the necessary information or staff resources to hand. Its reliance on member states in the past, and increasingly on regional and local actors, to provide the information required to prepare a co-ordinated development plan means that a variety of actors with a range of strategic objectives are introduced into the programming procedure.

Both top-down and bottom-up approaches to policy implementation have some *descriptive* power in illustrating the nature of the interdependence between actors in the implementation of ERDF programmes. However, the top-down approach to implementation on its own clearly cannot provide an explanation of the process by which ERDF actions are implemented, if such an approach is understood to imply a strong central authority directing activities so as to ensure the compliance of lower level actors. The simple fact that there is a high degree of interdependence, however, does not in itself warrant the adoption of a bottom-up approach to policy implementation in the case of the ERDF. The apparent discretion enjoyed by local actors according to the terms of the 1988 Regulations should not be over-estimated. Firstly, this discretion is tightly constrained by the 'rules of the game'. In particular, the practice of non-additionality (and more recently 'subtractionality') by central government shapes the entire process. Secondly, present participants in the implementation arrangements should not be taken as given. UK central government plays an active role in determining just what constitutes the partnership. Thirdly, the UK central government is clearly capable of indirectly altering the goals and strategies of local level actors through its ability to affect the institutional structure in which they operate. A dramatic example of this in Scotland is the current reorganisation of local government whereby the two-tier system is being abolished and the number of authorities is being cut. While stressing the interdependence of actors then and the access of sub-national actors to local information, this chapter also recognises the extent to which such actors are constrained in their actions.

As the model of policy implementation as incomplete contracting prescribes, this chapter addresses the nature of the exchange between interdependent actors by looking at several of the *key dimensions of that exchange*. Not only does the following analysis describe the contents of the regional development programme, how it is prepared, and how an attempt is made to build flexibility into the process, it also addresses the following five sets of questions on the nature of the exchange in order to understand the relationship between the partners.

1. *What does each partner contribute to the exchange?* Starting from the most simple level of identifying who the partners are, the analysis then identifies their strategic objectives and considers the resources that each devotes to the exchange.

2. *How does the partnership change and evolve?* What accounts for the growth in the number of partners, and how are the strategic objectives of new partners incorporated in the contract? In the analytical terms set out in chapter 2, what is the level of *asset specificity* of the resources brought by each partner to the exchange?

3. *To what extent is the information required to prepare the programme dispersed, and how does the European Commission seek to ensure that the partnership supplies all the information relevant to the preparation of a co-ordinated development plan?* A recent legal study of implementation in the EC found a positive link between 'the preparation of Community law and its application: the more intensive the preparation and the more those who have to apply it are included in the creation of the Community rule, the less problems there will be during its application' (Ciavarini Azzi 1988: 191). The programming procedure introduced in the late 1980s was intended to provide just such a means by which to co-ordinate the actions of the various dispersed actors with a potential role in regional development planning. In the case of regional development policy, the variety of factors with a potential impact on regional economic performance (infrastructure, site provision, capital investment, innovation, technological change, human resources etc.) means that a particularly wide spectrum of actors must be involved in the partnership. However, does the involvement of a greater number of actors increase the likelihood that competing objectives are introduced into the programming procedure?

4. *To what extent does the uncertainty and complexity surrounding the exchange result in a contract that is incomplete?* In what ways is the contract incomplete? A key aspect of programming highlighted by the model of incomplete contracting is the manner and extent of flexibility built into programmes, as a result of the bounded rationality of actors. Earlier analysis of Commission proposals pointed to the possible lack of flexibility in contractual agreements when regional development programmes might stretch over a number of years. Armstrong in particular warned against the dangers of inflexibility. While he understood the reasoning behind the Commission's desire for a programme approach (as a strategy for co-ordination and 'a means of increasing EC involvement in decisions on the *manner* in which ERDF assistance is given'), he urged caution since 'in the complex and fast-changing world of regional assistance now developing, it is doubly important that Member States and regional and local authorities retain the major control of the detailed decisions on the manner in which ERDF assistance is given, and that the EC does not get too entangled' (1985: 338-340). In essence, although he did not use the terms, Armstrong emphasised the need for an adaptive element to complement programmed implementation. Although ERDF programming has now existed for over a decade, no attempt has yet been made to analyse the extent to which programmed and adaptive strategies can be pursued simultaneously at the regional level.

5. *Has the European Commission succeeded over time in promoting its own priorities for development as the exchange relationship has matured?* In other words, do the priorities set out in the contractual agreements indicate a strengthened role for DG XVI in the *co-ordination* of regional development actions? Civil servants working for UK government departments have complained about 'the very substantial administrative effort' required 'to meet the administrative requirements of the Brussels mind' (House of Lords 1988: 16), given that the regional development planning promoted by the European Commission finds no counterpart in the UK. The piecemeal fashion in which economic development is approached in the UK is far from the elaboration of priorities and the strategic approach sought by DG XVI. Indeed, Mawson, Martins and Gibney point out that 'in administrative and professional terms there was a certain amount of scepticism ... about the validity of the rational normative approach to economic development based on the concept of preparing a regional plan which contained: analysis, objectives, financial measures, final schedules, and also evaluation' (1985: 48-49). How then have public officials at central and local levels in the UK met 'the requirements of the Brussels mind'? Has the ability of such actors to pursue a 'rational normative approach' been enhanced over the last decade? In short, has 'the Brussels mind' triumphed in the preparation of

regional development contracts in the UK, and, if so, how is this reflected in the priorities for development?

These five sets of questions, drawn from the incomplete contracting model, are addressed throughout this chapter. By considering these questions, we thereby focus on the bargaining involved in the preparation of the regional development contract. As emphasised in the introductory chapter, policy emerges across many inter-related 'stages' of the Structural Funds process. The policy implications of the European-level changes in the ERDF Regulations examined in chapters 3 and 4 can only be appreciated by examining in depth the exchange relationship in a specific region.

The remainder of this chapter is organised in five sections. **Section 5.2** provides some elementary background information on the process and extent of regional economic decline in Western Scotland, without which the analysis of policy responses makes little sense. **Section 5.3** introduces the key partners in the programming process and assesses the extent to which each is involved in the Western Scotland partnership. **Section 5.4** then provides a detailed analysis of the programmes prepared in Western Scotland over the last decade. **Section 5.5** analyses the extent to which the shift over time in the balance of expenditure away from capital-financed infrastructure towards revenue-financed business support indicates the enhanced capacity of the European Commission to shape the contractual agreement. This section therefore also looks at the balance between these spending priorities in the more recent programmes agreed for Western Scotland. The concluding **Section 5.6** provides a reprise and summary of the findings of this chapter, by returning to the questions outlined above. It is to the extent and nature of economic decline in the case study region that the chapter now turns.

5.2 Regional Economic Decline in Western Scotland[1]

Before providing some background data on the regional economy of Western Scotland, it is first necessary to explain what constitutes that administrative region. The present Western Scotland (Objective 2) development programme is based largely on the boundaries of Scotland's largest local authority, Strathclyde Regional Council. The region is geographically located at the north western periphery of the European Union (see Map 5.1). The first programme of ERDF expenditure (as opposed to

[1] For the sake of accuracy, it should be noted that the region under focus constitutes west central Scotland, and not the Objective 1 region of the Highlands and Islands or the Objective 5b region of Dumfries and Galloway. The current Objective 2 programme in west central Scotland is nevertheless called the 'Western Scotland Programme' and it is to this area that the term is applied herein.

individual project assistance) to be implemented in the west of Scotland was the Glasgow National Programme of Community Interest (NPCI), approved by the European Commission on 12 December 1985. This programme was centred on Glasgow, essentially the area covered by the City of Glasgow District Council. The financially larger Integrated Development Operation approved three years later was expanded to cover most of the region of Strathclyde.[2] In 1993, the West of Scotland Objective 2 area had a population of 2.3 million, 45% of the total for Scotland, reflecting Strathclyde's anomalous size relative to Scotland as a whole.

The Western Scotland programme covers a differentiated area embracing 'isolated rural areas, free-standing communities dependent on declining coal and steel industries, new towns with modern, expanding industries and the multi-faceted economic and urban problems apparent through the continuous built-up area of the Clydeside conurbation - perhaps a greater range of types of area than any other local authority in Britain' (Roger Tym & Partners 1984: 5). However, the region is most noted for the heavy industry which long dominated the economy and society of Western Scotland. The decline of heavy industry left a pattern of economic and urban problems throughout the urbanised areas of the region, notably in the built-up area centred on Glasgow and running along the valley of the River Clyde from Paisley and Dumbarton in the west to Motherwell and Airdrie in the east. The geographical location of Glasgow as a sea port on Scotland's west coast had earlier allowed the city to grow rapidly through trade (in tobacco then cotton) with imperial markets to become the commercial centre of Scotland after the Act of Union with England in the early 18th century. However, by the late 19th century and the decline of the cotton trade following the American civil war, the heavy industries for which west central Scotland was to become renowned had taken root. The discovery of extensive coal and iron ore deposits along the River Clyde led to the emergence of the Glasgow city-region as a cradle of industrial development. The period from the 1870s to the First World War is generally regarded as the region's period of greatest prosperity with expansion in steel-making, textile production and locomotive manufacture, but most notably in shipbuilding and marine engineering. Boasting its title as 'The Second City of the Empire', Glasgow was the centre of a thriving region which rated within the first six in Europe in terms of productivity and population in this period (Checkland 1981; Keating 1988). The narrowness of this industrial base and its subsequent decline, however, have been the dominant influences on the development of the economy in west central Scotland.

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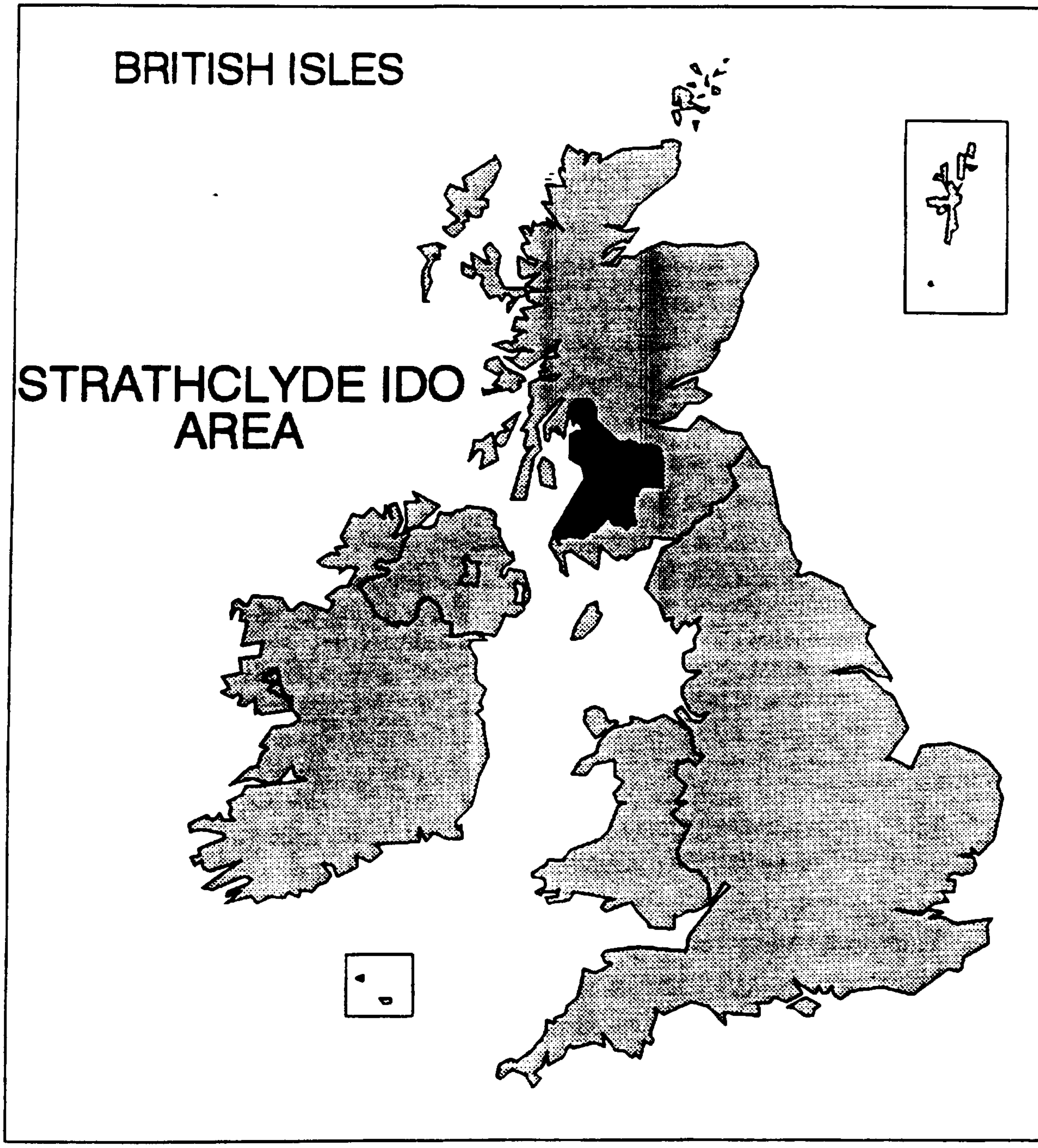
[2] The IDO did not cover all of the Strathclyde Regional Council area, since it excluded those rural parts of the region falling within the operational area of Highland Enterprise (see below). Moreover, it included the Sanquhar area of Dumfries and Galloway (Pieda plc 1993: 1).

Map 5.1: Strathclyde IDO Area



Source: The Scottish Office

Its long industrial heritage indelibly marked the post-war development of west central Scotland. The vulnerability of the industrial economy to the recession of the 1930s had been apparent, only to be masked again by the immediate post-war boom in industrial production. Stöhr has highlighted the economic problems of areas dependent on heavy industry, pointing out that 'especially urgent restructuring problems are usually encountered in "old" industrial areas. Their structural conditions mostly go back to the first industrialization wave based on mass production of standardized commodities and on what is termed Taylorist or Fordist production technology, making maximum use of economies of scale' (1990: 7). The consequent domination of heavy industrial economies by a small number of large firms hindered economic diversification, to the extent that when such areas began to experience decline, the economic impact was very often highly concentrated in the specific area.

By the late 1950s the first signs of terminal decline in the economy of west central Scotland were appearing, but it is the period since the early 1970s which have received most scholarly attention. A general phase of 'de-industrialisation of unprecedented intensity and generality' in the traditional industrial regions of the UK has been dated from that time:

> The most significant effect has been the extensive restructuring of capital across almost every sector of industry, through the rationalisation of capacity and the divestment and closure of plants. In many cases this 'slimming down' and devalorisation of domestic industrial capital has been accompanied by an acceleration in the multinationalisation and internationalisation of production as firms have switched activity overseas in search of higher profits, lower costs and new markets ... the cost has been a massive reduction in employment, a decline of more than two million jobs (or 28%) since 1976 (Martin 1989: 29-30).

In west central Scotland, the impact of deindustrialisation was particularly severe as heavy job losses followed from the decline in the traditionally dominant heavy industries upon which the strength of the area had been based at the beginning of the century.

Table 5.1: Decline in Key Manufacturing Industries in Strathclyde (1976-1986)

	Number of Jobs Lost 1976-1986	Percentage Reduction in Employment
Metal Manufacturing	15,000	50%
Vehicle Production	17,500	56%
Shipbuilding	13,200	44%
Textiles	12,700	44%
Mechanical Engineering	34,400	53%

Source: Industry Department for Scotland/Strathclyde Regional Council (1987) *Strathclyde IDO Programme Submission* (Edinburgh: The Scottish Office).

The 1987 submission to the European Commission for a programme of assistance in regional economic conversion revealed the scale of the de-industrialisation process in Strathclyde. Table 5.1 illustrates the scale of decline in key sectors of manufacturing industry in Strathclyde between 1976 and 1986. According to the figures of Strathclyde Regional Council, in the decade to 1987 approximately 165,000 manufacturing jobs were lost in Strathclyde - a fall of 48%, compared with a fall of 31% in Scotland, and 28% in the UK as a whole (Industry Department for Scotland/Strathclyde Regional Council 1987: 43). Manufacturing industries' share of total employment in Western Scotland fell from around 42% in the late 1960s to 18% in 1991, while, in common with many other traditional industrial regions, the service sector's share in total employment increased correspondingly to 62% in 1981 and again to 71% in 1991 (The Scottish Office/Strathclyde European Partnership 1994: 4, 79).

Despite the rise in service sector jobs, net employment in the region has declined. The net loss in the number of jobs across the region is striking. In 1981, 895,000 people were employed in the region. By 1991 this figure had fallen to 850,000 [with a forecast of further reductions to 780,000 by 2001] (ibid.: 4, 79). The erstwhile locational advantage of the region had become a disadvantage in the post-war years as the focus of sea trade had shifted to the east, from the Commonwealth to Europe, thereby rendering Strathclyde a 'peripheral' region of Europe. The development of the North Sea oil fields in the 1970s brought little direct benefit to Strathclyde, in much the same way as the manufacture of 'newer' products such as cars and light engineering in general had previously passed the region by. The result has been consistently high rates of unemployment, the worst effects of which were felt between 1981 and 1988 in the region. Total unemployment rates stayed between 17% and 19.5% during that period, while male unemployment reached 25% in 1986. To an extent these figures disguise the severity of the problem. Not only were the numerous changes by the Conservative Government in this period to the means for calculating unemployment figures widely greeted with scepticism, but unemployment black-spots exist behind the regional figure. Pockets of unemployment of over 60% were experienced in the worst hit communities in the region (Russell 1992: 1-2).

In summary, the regional economy of west central Scotland has been characterised by a stark decline in numbers in employment, a shift to the service sector, and the 'suburbanisation' of employment (Lever & Mather 1986: 2). One consequence of the phenomenon of suburbanisation has been the accumulation of large amounts of derelict land in urban areas. The 1994 development plan for the region submitted to the European Commission showed the scale of this environmental problem, pointing to 5,700 hectares of vacant and derelict land in the area, 40% of which had been left untreated since before 1981 (The Scottish Office/Strathclyde European Partnership 1994: 4). More generally, Lever and Mather suggest that what is most startling about the post-war changes is not that they have altered the character of the city of Glasgow and its economic hinterland, but the *speed* at which the changes have taken place (1986: 1). The result of this rate of change has been to make the problems of structural transition particularly acute: 'it is perhaps because Glasgow, and the whole of the West Central Scotland conurbation, has experienced more acute economic and environmental problems than any other British - or indeed European - city that it has become a laboratory for experimental urban policy' (ibid.: 1).

The nature of the regional and urban policy initiatives taken within the domestic policy framework is summarised in Appendix 2. For the purposes of this chapter, it is important simply to note three fundamental points concerning the nature of regional policy in the UK in the late 1980s and early 1990s. Firstly, and most simply, total levels of domestic expenditure on regional policy (at around £300 million in 1992-93 excluding urban policy expenditure) are now less than annual EC Structural Fund receipts there (around £650 million in 1992). Secondly, the approaches of British regional policy and European regional policy are fundamentally different. Not only is the spatial focus under British regional policy generally much smaller (Appendix 2 details the historic focus on unemployment 'black-spots' and the recent shift of emphasis to urban areas), but there is no concept there of integrated economic development planning. Similarly, it should be noted that British regional policy is targeted at the private sector (*Regional Selective Assistance* and *Regional Enterprise Grant* are paid directly to firms) while the Structural Funds aim overwhelmingly to encourage economic planning by the public sector. Thirdly, as suggested in earlier chapters of this thesis, many of the changes over the 1980s can be encapsulated in the notion of a shift to local economic development. Stöhr has summarised this shift in regional policy in terms of the following changes: from a focus on regional growth to a focus on regional innovation strategies; from centralised to decentralised organisational forms; from inter-regional redistribution to the mobilisation of regional resources. Policy instruments involving capital, a few large manufacturing firms and individual projects have been replaced by programmes involving information, numerous small flexible firms and technology services (1989: 192).[3] Bennett and Krebs, who provide an excellent summary of this shift in emphasis, stress the need for a multi-faceted approach to local economic development and hence the need to co-ordinate a multitude of actors. The combination of 'top-down leadership and financial resources' with 'bottom-up sensitivity and expertise' requires effective partnership arrangements (1991: 6). It is to the partners in the European financed development contract for Western Scotland that this analysis now turns.

5.3 'The Partners': Economic Development Actors in Western Scotland

The post-war commitment of successive governments in the UK to regional economic development policy was substantially scaled down during the 1980s, as detailed in Appendix 2. In this same period, the absence of a 'regionalisation' of state functions, despite significant pressure 'from below', singled the UK out against the dominant trend in western Europe (Crouch & Marquand 1989). The Report of the Royal Commission on the Constitution - the so-called Kilbrandon Report - had stated in 1973 that 'the United Kingdom is the largest unitary state in Europe and among the most centralised of the major industrial countries of the world' (1973: 87). The well-documented failure of the subsequent devolution bills in Parliament led to the downfall of the Labour government in 1979 and the return of the Conservatives to government, ironically marking the beginning of a period of further centralisation and local expenditure controls within the UK. However, it is not within the scope of this research to speculate on the potential implications of greater decentralisation or a separate Scottish legislature on policies for economic development or wider relations with the European Union.[4] By contrast, as stated above, the purpose of this case study is to test the applicability and utility of the model of policy implementation as incomplete contracting.

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[3] Benington and Geddes (1992) link this shift to the 'neo-liberal hegemony' in the broader economic agenda of the time, with its focus on private sector led local initiatives and partnerships to improve local labour market conditions.

[4] See Bachtler, Downes and Yuill (1993) or Brunskill (1992) for examples of such speculation.

The reasons for selecting Western Scotland as the case study region were set out in the introductory chapter. Although not guiding the selection of Western Scotland (not least because the perspective adopted in this research is that of the European Commission and not the regional actors), the set of institutions involved in the implementation of ERDF programmes there should now be sketched. This section introduces the key participants in the partnership process, although all 140 or so obviously cannot be considered. An introduction to the key 'partners', and an examination of how they have 'geared themselves up' for the ERDF process, is essential to the subsequent analysis of their efforts to prepare a coherent regional development contract between themselves. The Scottish Office Industry Department, Directorate-General XVI of the European Commission itself, the local authorities, the Scottish Enterprise Network and some of the other public sector partners to the contract are therefore introduced in the remainder of this section. As suggested by the model of incomplete contracting, the *maintenance* of the relationship itself is valued by participants, even if a key feature of the partnership is *change* as new actors emerge, as public bodies are privatised and lose eligibility, or as shifts in programme priorities bring in new actors. Over time, the number of partners has increased dramatically. A central actor from the outset has obviously been central government in the form of the Scottish Office.

5.3.1 *The Scottish Office Industry Department*

While it was emphasised in the introductory chapter that the Scottish trinity of separate identity, institutions and interests is of marginal concern to this study, the existence and operation of the Scottish Office can only be understood in such a context. The creation of the Scottish Office in 1885 and its subsequent development have been considered elsewhere (Keating & Midwinter 1983; Kellas 1984).[5] The office was set up as a 'concession to Scottish sentiment', just as the Welsh Office was set up as a concession to Welsh sentiment (Hanham 1969): in other words, the UK territorial ministries 'are there because Scotland and Wales are there' (Kellas & Madgwick 1982: 11). According to Kellas (1991b), full integration of Scotland into the English public administration system is effectively blocked by the separate national system of Scots law, education, religion and local government, all of which pre-date the 1707 Act of Union and are guaranteed by that Union. Administration in Scotland is therefore principally the responsibility of the Scottish Office, headed by

[5] The Scottish Office pre-dates the other two territorial ministries in the UK by several decades: the Welsh Office was established in 1964 and the Northern Ireland Office in 1972. The Scottish Office was based initially in London, until its move to Edinburgh in 1939 at a time when the competencies of the Secretary of the State for Scotland were expanded.

the Secretary of State for Scotland who by tradition sits in the Cabinet. However, the territorially specific remit of the Secretary of State for Scotland complicates his role as the head of a department of central government. His job as a Cabinet minister subject to the convention of collective responsibility is notoriously difficult to decipher.[6] Nevertheless, it should be emphasised that despite administrative devolution, the Scottish Office remains an integral part of central government responsible to Westminster government.[7]

The departments of the Scottish Office in Edinburgh allow the Secretary of State for Scotland responsibility in a variety of fields which would be the responsibility of several functional departments in England. The Scottish Office currently comprises five departments: *The Scottish Office Agriculture and Fisheries Department*; *The Scottish Office Environment Department*, responsible for housing, local government issues and other environmental services; *The Scottish Office Home and Health Department*, responsible for police, prisons, criminal justice, fire services and the National Health Service; *The Scottish Office Education Department*; and *The Scottish Office Industry Department*. In addition there is also a *Central Services Unit* responsible for personnel and finance.[8] Keating and Midwinter point out that 'some observers have commented that, by bringing together a wide range of functions under a single Minister, the Scottish Office is able to take a more 'corporate' view of policy and administration and to achieve a greater degree of co-ordination than is possible in England' (1983: 16). Indeed, it is suggested below that programming is made more difficult in England by the fact that the Department of Trade and Industry (responsible for ERDF projects financed from revenue expenditure) and the Department of the Environment (responsible for ERDF projects financed from capital expenditure) have often disagreed about the balance between capital and revenue-financed projects there.

The most relevant of the five departments of the Scottish Office for this analysis of the ERDF is the Scottish Office Industry Department (SOID), the department responsible for 'the development of enterprise in Scotland' (Departments of the Secretary of State for Scotland and the Forestry Commission 1993: 35). An

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[6] The extent to which the Secretary of State exercises autonomy from Westminster in the policy fields dealt with by the Scottish Office is a matter of considerable debate. Key contributions to this debate, which need not concern us here, can be found in Keating and Midwinter (1983: 18-24), Kellas and Madgwick (1982), and Keating and Carter (1987).

[7] Rhodes argues that because it is 'more than just another department of central government', the Scottish Office has a quasi-intermediate status between local and central government and can be considered under his definition of 'sub-central government' (1986: 38). In terms of the analysis presented herein, Rhodes' qualification of the status of the Scottish Office is disputed. The Scottish Office shares the Department of Trade and Industry line on all issues (such as additionality) which are contested with the European Commission and sub-national actors.

[8] With around 10,000 civil servants, the Scottish Office is comparable in terms of number of staff to the Ministry of Agriculture, Fisheries and Food, or the European Commission.

expansion of Scottish Office tasks in the industrial field occurred in the 1960s, largely in response to concern at the performance of the Scottish economy and the need to improve physical and economic planning. The Scottish Development Department (SDD) was set up within the Scottish Office in 1962 to bring together major environmental, planning and local government responsibilities.[9] In 1973 the Scottish Economic Planning Department (SEPD) was set up by the Heath Government and took over the economic responsibilities of the SDD. In 1975 the SEPD was further expanded when it took responsibility for the newly-created Scottish Development Agency (see below). The change of name in 1983 from the Scottish Economic Planning Department to the Industry Department for Scotland (IDS) was designed 'to emphasise the Thatcher Government's rejection of planning' (Keating 1988: 35). The Industry Department in turn was renamed the Scottish Office Industry Department in January 1991. Among the Departments' main tasks, those currently of most relevance to the ERDF are:

- directly, or through sponsored bodies (Scottish Enterprise) to provide financial aid and/or advisory support for competitive firms, entrepreneurship, inward investment, export and training;
- to ensure that the markets in land and capital meet the needs of new or expanding enterprise;
- to support urban regeneration, development in rural areas and tourism through the Scottish Tourist Board, Scottish Enterprise and Highlands and Islands Enterprise and to supervise the work of those bodies and the New Town Development Corporations;
- to secure the building and the maintenance of the trunk road system, to allocate resources for local authority roads and transport systems; and,
- to co-ordinate Scottish Office interest in EC matters not otherwise allocated and to secure assistance to appropriate areas from European Structural Funds (Departments of the Secretary of State for Scotland and the Forestry Commission 1993: 35).

The overarching aim of the SOID under the Conservative Government has been 'to enhance the role of private enterprise in the economy' (ibid.: 34). As such, it oversees the Scottish aspects of regional policies both in a UK and an EC context. Given the weight of such issues in contemporary Scottish political debate, SOID is 'the most politically significant and sensitive of all Scottish Office departments', despite the fact that it is the smallest of the five with around 300 civil servants (Moore & Booth 1989: 24).

Since the creation of the ERDF in 1975, there had been an understanding in the UK that Scotland should receive a predetermined proportion of the Funds,

[9] This was the model later followed in England with the creation of the giant Department of the Environment (Keating & Midwinter 1983: 15).

estimated as around one quarter of the eligible sum for the UK (House of Lords 1981: xii). While the lead department in dealing with the Commission on ERDF issues was the Department of Industry (now the Department of Trade and Industry), the Scottish Economic Planning Department was responsible for eliciting and administering applications. Indeed, it has been suggested that the SEPD was quick to perceive the potential of the ERDF for Scotland. It issued the necessary 'green light' circular in 1975 allowing local authorities to apply for ERDF aid earlier than the Department of the Environment did to English local authorities, to the resentment of local authorities in English Assisted Areas (Leitch 1989: 18). Keating and Midwinter suggested in the early years of the ERDF that, as a result of the 'multi-functional nature of the Scottish Office and close links with local authorities and firms, it is able very rapidly to produce lists of schemes' (1983: 91). In respect of the implementation of European structural policies, the administrative demands of increased programming have necessitated an increased level of resources within the Scottish Office.

Interview sources have indicated that the *European Funds Division* was set up within the Industry Department for Scotland in 1987, after the approval of the National Programme of Community Interest for Glasgow but during the application process for an Integrated Development Operation for Strathclyde. The number of Scottish Office staff involved in the implementation of ERDF actions increased from five to seven at the time of the 1984 ERDF Regulation (House of Lords 1984: 24) and again to 23 after the reform of the Structural Funds in 1988.[10] The report of the House of Lords Select Committee on the European Communities examining the 1988 reforms confirmed this trend when it expressed concern that 'in the Scottish Office, staff costs in administering programmes have roughly trebled since the reform of the Structural Funds as opposed to the costs of administering projects before the reform' (1992: 21). This number was to increase yet again following a six-month internal review in 1990 of the Scottish Office's involvement in European work. This review, organised by the European Funds Division and the Central Research Unit, revealed that although the Agriculture and Fisheries Department and the Industry Department were most involved in European-related work, they were by no means unique in this respect.[11] Of the 117 Scottish Office divisions surveyed, a total of 89 had some degree of involvement in European policy areas. Around 20% of staff were involved in

[10] Interview with Senior Executive Officer, European Funds and Co-ordination Division (Programme Management Unit), Scottish Office Industry Department; Edinburgh, 9 January 1992.

[11] Interestingly, Gowans suggests that 'without exception' in 1984, the Scottish Office officials in Edinburgh and UK Permanent Representation officials in Brussels he interviewed believed that there was no need for a co-ordinating unit within the Scottish Office, whether located in Edinburgh or Brussels (1984: 73). The Scottish Office's own staff newspaper *Scoop!*, Issues No. 9 and No. 10 of September and December 1991 respectively provide details of the internal review of European activities and the creation of the European Central Support Unit.

European related work. A decision was therefore taken to set up a central focal point for this work, the *European Central Support Unit*, to organise seminars for staff, promote contacts and encourage secondments of Scottish Office staff to European institutions. This unit operates within the renamed *European Funds and Co-ordination Division*.

The European Funds and Co-ordination Division (EFC) has the general tasks of co-ordinating Scottish Office interest in those EC matters not otherwise allocated (to Whitehall ministries) and securing assistance from the European Structural Funds. The Division's three main objectives are specified as follows:

- to ensure the maximum benefit for Scotland from the European Structural Funds;
- to help ensure that EC policy takes full account of distinctive Scottish features, and that the Scottish Office takes full account of the EC dimension in devising and executing its own policies;
- to consider any implications for Scotland of the amendments to the European Treaties agreed at the European Council in December 1991, particularly in relation to the Committee of the Regions.[12]

To these ends the Division consists of six Branches and has a staff complement of around 30. Three of these branches are primarily policy-oriented: one implementing the aforementioned European review; one on general Structural Funds policy such as the review of regulations; and one on Community Initiatives and the European Social Fund. The other three branches form what is known as the *Programme Management Unit*. These three latter branches are therefore of greater interest for this research: one branch deals with financial estimates and auditing; one deals with the management and monitoring of programmes in the Objective 2 region of Eastern Scotland; and one deals with the management of programmes in Scottish rural areas. Interestingly, no branch exists exclusively for the Objective 2 region of Western Scotland, given the existence of the independent Programme Executive there (analysed in chapter 6). One Higher Executive Officer acts as the regular liaison with the Programme Executive, spending around half her time in the Scottish Office in Edinburgh and the other half with the Executive in Glasgow. The three branches in the Programme Management Unit are grouped together under a Grade 6 (Senior Principal) civil servant and all come together under a Grade 5 (Assistant Secretary) official.[13] The Grade 5 chairs all the CSF Monitoring Committees in Scotland and is in regular contact with his opposite number in the Department of Trade and Industry

[12] 'Introductory Staff Development and Training Strategy for EFC Division', unpublished Scottish Office document, February 1993, typescript, p.1.

[13] See Drewry and Butcher (1988: 63-67) on the structure of grades in the UK civil service.

(DTI) in England, who is the lead civil servant for the implementation of the ERDF in the UK.

Evidence regarding the relationship between EFC Division in the Scottish Office and government departments in England is extremely difficult to gather given the sensitive political nature of such questions.[14] Gowans provides a sanitised inside account of the Scottish Office role in promoting Scottish interests in Europe through central government channels, emphasising the opaque process of the 'inter-Whitehall letter' as a vehicle for resolving inter-departmental disputes (1984: 67). In general, it can be stated that the intensity of Scottish Office contacts with the DTI, the lead department on ERDF issues, varies according to the stage of the implementation process. Regular inter-departmental meetings took place during the negotiation of the Regulations in 1988 (and again during their re-negotiation in 1992). Meetings are also convened with the DTI, the Treasury, the Department of Transport, the Department of Employment (on ESF matters), the other territorial ministries, and the Department of the Environment (responsible for local government and land use planning in England) to discuss the government line on the preparation of development plans and programmes. While the Scottish Office undertook the preparation of the plans for Scottish regions in 1989, the co-ordination of the plans for the UK as a whole was undertaken by the DTI. The suggestion by one Welsh Office official that the DTI really just provided a 'post office' service for the territorial ministries, passing programmes on to the office of the UK Permanent Representative in Brussels for submission to the Commission (House of Lords 1988: 18) seems to underestimate the DTI role. Indeed, Keating suggests that the increased political saliency of the Structural Funds in recent years has led to a tendency to UK-wide uniformity:

> '... (I)ronically, the reform, intended to provide a greater regional input, has produced greater uniformity within the UK than existed before. The lead role of the Department of Trade and Industry has been strengthened and all UK Community Support Frameworks must be drawn up within strict Whitehall and Treasury guidelines, leaving little room for local experimentation' (1994: 235-236).

While the respective roles of the Department of the Environment and the DTI in regional planning have long been an area of contention, and hence Keating's observation is particularly apt for the relationship between the two, such tensions are largely avoided in Scotland given the Scottish Office's multi-functional territorial

[14] A lightweight inside account of the general process of Cabinet Office co-ordination of European issues is provided by Bender (1991). Preston (1984) describes the participation of Scottish Office civil servants in the Fund Management and Regional Policy Committees which existed at that time. Keating and Waters (1985) and Keating (1994) provide general accounts of the wider representation of Scottish interests at the European level.

remit. Identification of points of conflict between the Scottish Office and the DTI regarding programme implementation (i.e. after the allocation of resources to each regional programme) is extremely difficult given the secrecy of the inter-departmental meetings. Moreover, as suggested above, on all the major points of contention between central government and the European Commission, publicly the Scottish Office is obviously in complete agreement with the DTI. The role of the Scottish Office's EFC Division in chairing meetings and generally co-ordinating Structural Fund activity in Scotland is examined in greater detail below. Attention now turns to the European Commission, for whom the costs of programming have also entailed an increase in the internal resources devoted to the implementation of Structural Funds programmes.

5.3.2 *The European Commission: Directorate-General XVI*

Since the introduction of the principles of programming and partnership in ERDF actions in Western Scotland, the European Commission must be considered as a partner in the European-funded development contract for the region. More specifically, the Directorate-General for Regional Policy (DG XVI) has played a key role and its general organisation should be sketched in this section. Given the paucity of studies of DG XVI as an organisation, this sketch draws heavily on the work of Hooghe (1993) as well as interviews and the internal *guide des services* for that Directorate-General. DG XVI is the key actor at the European level with a direct involvement in regional development planning. As Hooghe has pointed out, the Commission administration can most accurately be characterised as a 'confederation of DGs than as a unified civil service', and within that system DG XVI is the 'informal heavyweight in the Structural Funds realm' (1993: 5, 23).[15]

The existence of a Directorate-General for Regional Policy pre-dates the existence of the ERDF. Regional policy issues were originally the responsibility of one small division of the Directorate-General for Economic and Financial Affairs, which was essentially a study and planning unit (Lind & Flockton 1970: 38). Increasing interest in regional policy in the European Commission during the 1960s led to a series of reports and culminated in the establishment of a Directorate-General for Regional Policy (DG XVI) in 1968, following the merger of the executives of the

[15] After the 1988 Structural Fund reforms, DG XVI was given the *chef de file* role over Objectives 1, 2 and 5b, while DG V (Employment, Industrial Relations and Social Affairs) took the lead over the ESF funded Objectives 3 and 4. A member of the Cabinet of the Regional Policy Commissioner (interviewed on 25 November 1994) identified a certain 'frustration' among DG V officials who were required to follow the DG XVI policy lead in Monitoring Committee meetings for Objective 2 programmes in the UK. This was confirmed (in an interview on the same date) by a Desk Officer in DG V with responsibility for UK programmes.

three original Communities (Von der Groeben 1969: 2). Regional policy was then separated from general economic policy when Lord Thomson became the first Commissioner solely responsible for regional policy in 1973. In these early years DG XVI was made up of just two directorates: co-ordination, programmes and studies on the one hand, and financial operations on the other. Although the number of personnel in DG XVI approximately tripled around the time of the 1984 ERDF Regulation, with the introduction of early forms of programming and indicative allocation ranges, the structure of the DG remained substantially unchanged.[16] In October 1986, when Eneko Landaburu became the new Director General, DG XVI was divided into three directorates: guidelines and priorities; programmes and integrated operations; and project finance. In addition, a horizontal unit for financial management and co-ordination was directly responsible to the Director General.

More radical organisational changes were prompted by the 1988 Structural Fund reforms.[17] In evidence to the House of Lords Select Committee on the European Communities at that time, Department of the Environment Officials expressed the opinion that a strengthening of the programming principle might entail 'considerable staff savings' for the European Commission. By contrast, when the Select Committee had reported on the ERDF in 1984, Pierre Mathijsen (then Director General of DG XVI) had doubted that staff could simply be transferred from project appraisal to programmes as different skills were involved. Even if that were not the case, Commission officials appearing before the Select Committee in 1988 suggested that the required increase in monitoring alone meant that simple redeployment of staff would be inadequate (House of Lords 1988: 13). Hooghe has found that, in the event, total staff numbers did not increase despite the doubling of the funds and the increased workload involved in programming and Community Initiatives (1993: 19). Subsequent staff shortages were dealt with largely by secondment of regional and national civil servants, who accounted for 30% of A grade staff in DG XVI early in 1993, a figure four times higher than that in 1989. This provided DG XVI with the greater expertise needed to operate the system of programming, as did the moves to attract more economists and less engineers, and the flattening of the hierarchical

[16] Assistant to Director General (responsible for regional policy advice), DG XVI; Brussels, 20 March 1992.

[17] It should be emphasised that the Directorate-General for the Co-ordination of Structural Policies (DG XXII), established in 1986 and abolished in 1992, played only a marginal role in the implementation of programmes. Hooghe (1993) provides a useful account of the rise and fall of DG XXII which demonstrates both the influence of French planning ideas in the 1988 Structural Fund reforms and the political weight of DG XVI in the internal Commission politics surrounding structural policies. DG XXII was weak by comparison. Department of Employment officials in the UK suggested that it was simply 'an organisation searching for a role', while Department of the Environment officials detected a 'power battle' as early as 1988 between DG XXII and the larger, more established Directorates-General, i.e. DG V, DG VI, DG XVI (House of Lords 1988: 14). Hooghe (1993) maps DG XXII's gradual decline until its abolition in December 1992.

structure of the DG through the expansion in the number of senior posts by 60% (ibid.: 20).

In 1989 DG XVI was re-organised. Five directorates were set up, with three corresponding to the priority Objectives set out under the Structural Fund reforms. Two directorates became responsible for Objective 1 expenditure: Directorate B was responsible for Greece, Ireland, Northern Ireland and Portugal; Directorate C was responsible for Spain, France and Italy. Objective 2, Objective 5b and ECSC conversion measures for all member states were grouped together in Directorate D. These three operational Directorates were flanked by two 'horizontal' directorates. Directorate A constituted an internal policy 'think tank', while Directorate E dealt with practical issues such as financial control, relations with other Community institutions and publicity. In addition, a unit for the co-ordination of actions was established to report directly to the Director General.

Hooghe has emphasised the desire of DG XVI's senior management to keep units 'multinational', that is to avoid 'national capture' of any unit (1993: 20). On the one hand, there was a need to appoint desk-officers with responsibility for regions within a given member state who appreciate the policy styles and understand the policy environment in that state (or at an even more basic level are able to speak the language). On the other, there was a reluctance to staff units completely with nationals of the states with which they were dealing. In general terms, Directorates A and E (the non-implementation Directorates) are the most 'multi-national'. In the case of the UK, however, language is generally less of a barrier to a non-national desk-officer than in the case of Greece. In fact, the desk-officer within Directorate D (the Directorate of concern in this study) responsible for Scottish Objective 2 programmes is Dutch, the Head of Unit for most of the period in concern was Greek (and was replaced in 1993 by an Italian), while the Director is English. It should be stressed that the Dutch desk-officer in particular, who visits Scotland almost monthly and is in daily contact with partners there, *has worked on Scottish ERDF projects and programmes since the early 1980s*. Interviews suggest that this continuity has allowed a level of trust to be built up between many local actors in Western Scotland and the European Commission representative for Scottish Objective 2 regions.[18]

Some consideration should now be given to the relevant regional and local actors involved in EC regional economic development policy in Scotland. Local authorities have traditionally absorbed the majority of ERDF resources there.

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[18] At the time of writing, DG XVI is currently re-organising its internal organisational structure again. Directorates will be organised along national lines in future rather than according to Objectives. This can be interpreted as a further re-nationalisation of European regional policy relative to the 1989 situation, since national interests will be institutionalised for the first time in the form of separate Directorates within DG XVI.

5.3.3 *The Local Authorities*

Since 1975 Scotland has had a two-tier system of local government by virtue of the *Local Government (Scotland) Act* of 1973. This Act reduced the number of authorities to the present system of nine regional councils, 53 district councils and three single-tier all-purpose authorities for the islands of Orkney, Shetland and the Western Isles. The debate surrounding the Wheatley Commission (the 1966-1969 Royal Commission on Local Government in Scotland) which preceded the re-organisation has been thoroughly covered elsewhere (Keating 1988: 35-43). What is important to note in this context is the division of responsibilities between the two levels of local government on the Scottish mainland. This division is reflected in the implementation of ERDF projects. Regional council responsibilities directly relevant to economic development (and hence ERDF purposes) include the following: roads, public transport, water supply and sewerage, industrial development (through business support schemes), vocational training (regional council financed Further Education Colleges received ESF support), and, more indirectly, strategic land use planning. District council responsibilities most relevant to the ERDF include the provision of industrial sites and premises, environmental improvements, the provision of facilities for tourists, waste management, and local development plan approvals. Since the issue of the 'green light' circular (noted above) from the Scottish Office to the local authorities shortly after their creation in 1975, local authorities in Scotland have been recipients of ERDF aid.

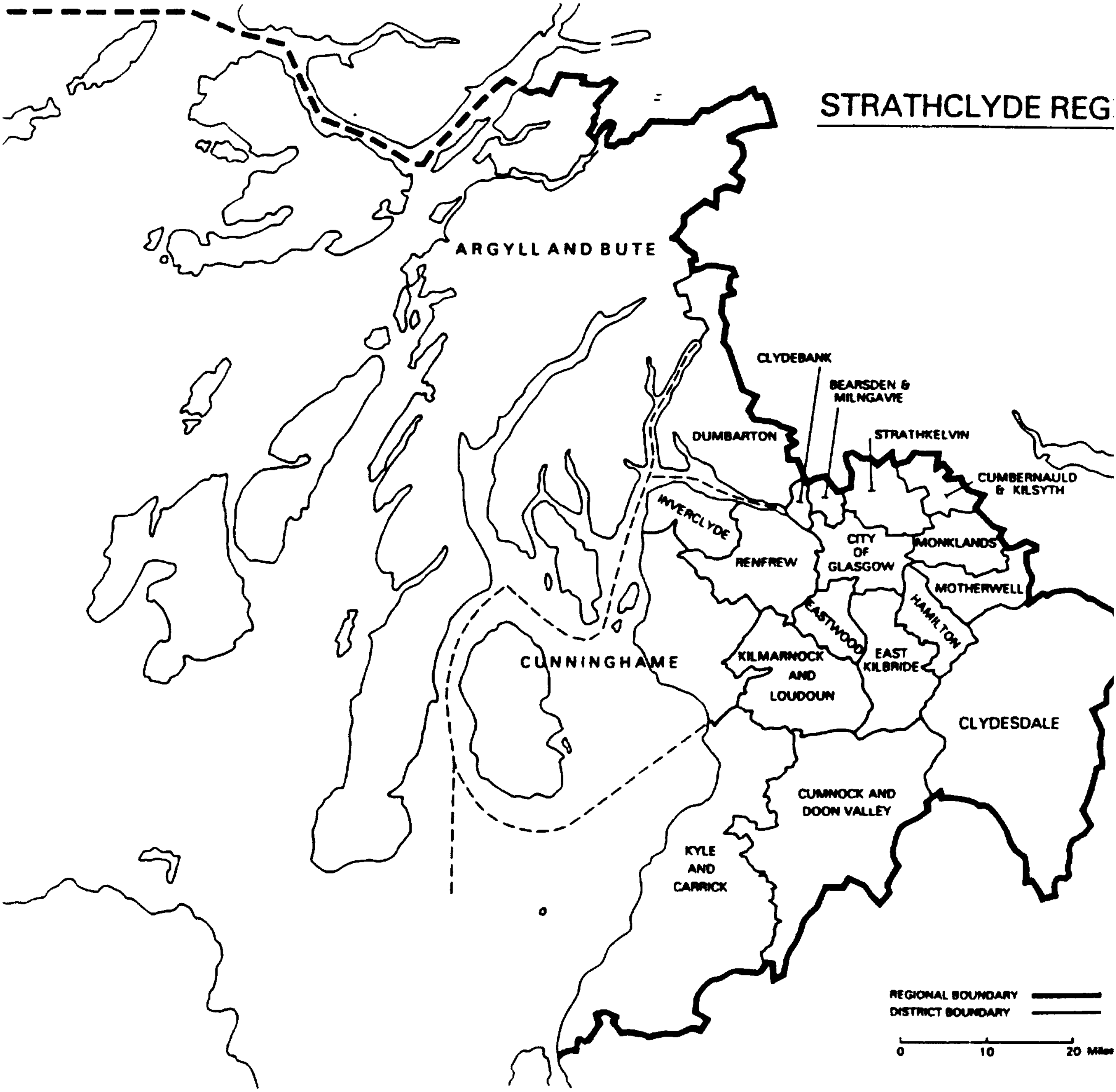
It should be emphasised that the period addressed herein coincides with a period in which central-local government relations in the UK have experienced a period of 'extreme turbulence' (Keating 1988: 91). As Brunskill suggests, 'to understand the UK's approach to "partnership", it is first necessary to understand the political environment in the UK during the 1980s, as that decade 'marked the end of consensus politics' (1992: 6). Although the UK is a unitary state in which the principle of parliamentary sovereignty allows central government theoretically unlimited powers, the tradition of local self-government there had long been respected (Keating 1988: 31). Post-war developments such as central government's acceptance of responsibility for economic management, the growth of the welfare state, and the domination of local election campaigns by national party issues blurred the erstwhile distinction between central and local government affairs in the UK, as elsewhere in Europe (ibid.: 31-32). Duncan and Goodwin (1988) date the current wave of tension to the mid-1970s, and the economic depression following the oil crisis of 1973. Reductions in public spending became a *sine qua non* of controlling inflation and containing real wage levels, and hence tighter controls on local government expenditure were introduced. The election of the Conservative government in 1979 saw such controls progressively tightened, as well as further restraints on local government competencies through reducing the public provision of home ownership, the privatisation and deregulation of services, and the promotion of compulsory competitive tendering for services. The stated rationale for such legislation was generally that it would improve local government through improved accountability, service delivery, consumer choice and value for money (Carmichael 1992). It is the tightening of spending controls that is of more relevance to this study.

A great weakness of the local government reform in Scotland in the mid-1970s, according to Keating, was the failure to consider local government finance, 'which was to prove the major issue of contention and the pretext for a drastic weakening of local government in the following decade' (1988: 42). The details of the successive pieces of legislation reducing the financial autonomy of local government in the 1980s and early 1990s need not be explored here (see Midwinter 1980; Butcher, Law, Leach & Mullard 1990; Gibson 1992; John 1994a). It is sufficient to note that local autonomy under both categories of local government expenditure (capital and revenue) was significantly reduced. Controls on revenue expenditure (spending on consumables such as staff costs and materials), financed through a mixture of Revenue Support Grant (previously Rate Support Grant), business rates, charges on user services, and Council Tax (previously domestic rates and then the Poll Tax) have been extremely high profile political issues in the UK over the last decade. Similarly, however, controls on capital expenditure (spending on the creation of fixed assets) through central government's ability to set capital allocation ceilings, as explained in chapter 3, have also continued over this period. Against this austere background, and despite central government's operation of a strict policy of non-additionality as explained in chapters 3 and 4 above, local authorities sought to attract ERDF resources in order to reduce their borrowing requirements and hence benefit in their revenue accounts through savings in loan charges. As Keating suggests, 'the benefit is not in proportion to the publicity given to them [EC funds] or to widespread beliefs in a pot of gold waiting in Brussels for any Scots enterprising enough to go and retrieve it; but, at a time of severe fiscal pressure, authorities must squeeze the last penny out of any source available' (1988: 182).

Strathclyde Regional Council, covering almost half the population of Scotland and without doubt the most important local authority in political terms there, has actively pursued ERDF funding since its creation. From the outset, the newly created Regional Council outlined its two main strategic objectives as the maximisation of employment and the eradication of multiple deprivation. These were set out in a document entitled 'Regional Report' in 1976, within which the European dimension to the objectives was also made explicit: 'the Council will endeavour to ensure that Strathclyde receives the maximum assistance from other sources including the European Community' (quoted in Leitch 1989: 15). At a glance, the Council's early endeavour seems to have been rewarded, since between 1975 and 1983 Strathclyde Regional Council received 44.2% of the ERDF awards for infrastructure projects in Scotland (Gowans 1984: 48).

In the early years of the ERDF, the Roads Department within the Council prepared and submitted ERDF project applications. This situation changed in 1980 with the creation of the Chief Executive's Department, an amalgamation of the former departments of Administration and Policy Planning. The new Economic Policy Group in the Chief Executive's Department played an increasing role in the ERDF process. The administration of EEC applications by Strathclyde Regional Council is now structured within the Chief Executive's Department, which provides the major initiation and policy input using its links to Brussels.[19] This Department prepares project applications and comments to Council Committees on European issues. Individual departments within the Council, most notably Roads and Water and Sewerage, continue to draft their own applications with advice from the Chief Executive's Department. According to one Council employee, this has had a centralising effect within the organisation: 'the pursuit of European funding has led to the emergence of a small group of staff within the Chief Executive's Department who have acquired a substantial body of expertise, built up over several years, on the workings of these funds. This has been more than useful for the department, and, ultimately, for the Chief Executive himself. This has provided an additional source of power over other departments, specifically to the already present hierarchical power, has been added sapiental power' (Leitch 1989: 54). As shown below, this increase in expertise was won through effort over a period of many years trying to adapt to the requirements of the programming principle.

Map 5.2: Strathclyde Region and Its Districts



Source: The Scottish Office

In terms of its relationships with the district councils in the area of European funding, the progressive strengthening of the programming principle has, if anything, strengthened Strathclyde Regional Council *vis-à-vis* the district councils lying within its boundaries (see Map 5.2), given the Region's greater role in strategic planning within the area. In the case of the Objective 2 programme for Eastern Scotland, one group of consultants found underlying tensions in the relationship between 'city districts' - i.e. Dundee District Council - and regional councils - Central, Fife, Tayside and Lothian Regional Councils (The Tavistock Institute of Human Relations 1991: 38), that might conceivably be replicated in Western Scotland. In general, however, relationships in Western Scotland are made easier by the existence of one large regional council (Strathclyde) covering the vast majority of the eligible area. Nevertheless, a general tradition of rivalry between Strathclyde Regional Council and Glasgow District Council has been noted, despite the fact that both are controlled by the Labour Party (Keating & Boyle 1986: 25). Keating notes that 'as the district [the City of Glasgow District Council] is larger in population than any Scottish region apart from Strathclyde itself, it has never accepted that it should be treated like the other eighteen second tier councils in the region and there is some hankering, particularly among the older councillors and permanent officials, for a restoration of lost powers' (1988: 72). Potential tensions in the area of ERDF funding are assuaged by the councils' joint action to attract support to the area in the first place, and by their common stance *vis-à-vis* central government policy on additionality. The post of Special Projects Officer in European Affairs created within the Town Clerk's Office of Glasgow District Council does not match the resources of the team in the Chief Executive's Department of Strathclyde Regional Council, but it is an initiative that has been replicated throughout the districts in Strathclyde (and beyond) in recent years.

It is worth emphasising, in line with the continued focus on local economic development initiatives, that local authorities are not only involved in the provision of 'hardware' infrastructure, but also provide a wide array of business support infrastructure and services. McQuaid's review of Scottish local government activity in this field found that the majority of authorities produce formal local economic development statements, usually after local research and consultation with government agencies, voluntary organisations, unions and the private sector. The business support services provided by local authorities include the following: counselling and advice to existing small firms; working with government agencies to attract inward investment; supporting trade development centres; financing quality improvement schemes for local firms; aiding the introduction of new technology in products and production processes; loans and loan guarantees to small firms; providing company training; and collaboration in sector initiatives at the local level, for example, in tourism strategies (1993:106-108). Many of these activities became eligible for ERDF support in eligible areas as the European Commission succeeded over time in directing expenditure away from hardware infrastructure to business support services.

Finally, it should be noted that the potential causes for tensions that may have existed between the two tiers of local government in Scotland have been superceded by events to a certain extent. At the time of writing, the Conservative Government is pushing through its plans to reorganise Scottish local government again and create a one tier system. Since the Conservatives controlled no regions and only three of the 53 district councils in 1991, this is viewed by opposition parties as a cynical move, motivated by party concerns (Hayton 1993; Midwinter 1993). In June 1991, the Scottish Office issued its first consultation paper on the subject with which, despite hostility and the government's failure to win more than a quarter of votes in Scotland at the 1992 General Election, it pushed ahead. The Scottish Office intends to have a unitary (single-tier) system in operation in mainland Scotland by April 1996. In its second consultation paper in October 1992, the Scottish Office confirmed that all of the new authorities will be smaller than Strathclyde, and therefore that some joint boards will be necessary for certain functions. Concerning the implementation of EC structural policy, the document states the following: 'as regards the implementation of European Community obligations, the need for any wider groupings will depend on the nature of the obligations relating to particular policy areas. In the operation of the Structural Funds, the size of the authority is unlikely to affect its ability to obtain support for appropriate projects qualifying for EC assistance, although the detailed operation of the Monitoring Committees charged with implementation of Community spending will need to be revised to take account of the new structure' (Scottish Office 1992: 65). According to the government, part of the reason why local government in Scotland needed reorganisation was the overall reduction in their competencies, and the existence of new organisations such as Local Enterprise Companies. It is to these organisations (and their 'grandparent' organisation - the Scottish Development Agency) that this examination of the partners now turns.

5.3.4 *The Scottish Development Agency / The Scottish Enterprise Network*

Although it existed for only a decade and a half, the Scottish Development Agency (SDA) became one of the largest regional development agencies in Europe and attracted widespread attention (Kirwan 1982; Halkier 1992). The idea of such an agency for Scotland had been around since the inter-war years, but it was the electoral advance of the Scottish National Party that provoked the Labour Party to promise an agency in their October 1974 manifesto to be 'the main instrument for the regeneration of the Scottish economy' (Keating & Boyle 1986: 21). The SDA was duly set up in Glasgow in 1975, taking over the functions of a few small industrial corporations and gaining responsibility for investment in industry in the form of 'money and management services; industrial promotion, particularly the encouragement of investment from overseas; and, reluctantly, the coordination of major comprehensive urban development schemes - which meant, in fact, the Glasgow Eastern Area Renewal (GEAR) project' (ibid.: 21). In fact, SDA strategy came to focus over the years on sectoral initiatives as well as area devėlopment. The Secretary of State for Scotland sponsored the Agency, through the Industry Department for Scotland, and many tasks were financed by grants from central government. As well as issuing guidelines for SDA actions, the Secretary of State chose the Members of the Agency's board, drawn from business, trade unions and local authorities. The Agency's strategy therefore became decidedly less interventionist after 1979 and the election of the Thatcher government (Moore & Booth 1989: 34). Following the DTI's 'Enterprise Initiative' (considered in Appendix 2), a 'fugitive phase' in the SDA's life cycle has been identified by Hood, covering the period from 1988 to 1991, when the whole concept of the SDA fell into disfavour with the Government as a result of the growing emphasis on 'enterprise culture' (quoted in Taggart 1992: 70). This uneasy phase in the Agency's life cycle came to an end with the winding up of the SDA in 1991 and the launch of Scottish Enterprise.

The result of an idea of the then Chairman of the Scottish Confederation of British Industry in 1988, Scottish Enterprise became operational on 1 April 1991, combining the functions of the SDA and the Training Agency in Scotland. The Training Agency (previously the Manpower Services Commission) had been the Government's principal agency for implementing its training policies in Scotland. Scottish Enterprise is a public body established under the *Enterprise and New Towns (Scotland) Act* of 1990. It currently contracts out the majority of its functions and expenditure to a network of thirteen Local Enterprise Companies (LECs). Outwith the Highlands and Islands (covered by Highlands and Islands Enterprise), the Scottish Enterprise Network is now 'the lead body for economic development, training and environmental improvement in Scotland' (House of Lords 1992: 186). Scottish Enterprise has the following Statutory Aims:

1. 'furthering the development of Scotland's economy, and in that connection, helping to provide, maintain and safeguard employment in Scotland;
2. enhancing skills relevant to employment;
3. fostering self-employment;
4. promoting Scotland's industrial efficiency and international competitiveness; and
5. furthering the improvement of the environment' (ibid.: 186).

The new approach to economic development has four key elements. Firstly, a minimisation of bureaucracy. Secondly, the increased involvement of the private sector, since Scottish Enterprise's role is 'to enable rather than to control or displace, the private sector' (ibid.: 186). Intervention should only occur when a market failure can clearly be identified. Thirdly, the integration of economic development and training functions. Fourthly, decentralisation of initiatives not just to the private sector but also to the local level (Hood 1990: 66).[20] The thirteen LECs currently operate within a policy framework set by Scottish Enterprise, although some strategic level functions are retained by the latter. LECs are 'free-standing organisations each having a separate and distinct contract with Scottish Enterprise... [to] provide local focus and knowledge along with a strong commitment to achieve the training, economic development and environmental improvement aims they have set for their areas' (House of Lords 1992: 187). LECs have the status of companies limited by guarantee, but they are non profit-making and their constitution prohibits them from distributing any financial surpluses to directors. They draw their resources from Scottish Enterprise, which in turn are provided to the latter by the Secretary of State for Scotland through grants and loans (although training resources are determined by the Department of Employment in London, in consultation with the Secretary of State for Scotland). The Secretary of State issues annual strategic guidance to Scottish Enterprise and the LECs around the time that SE's budget is notified to them, in time to influence the LEC's detailed operational planning for the year ahead. Each LEC therefore formulates a strategy for the development of its area in the context of the policy framework previously set out, and these take the form of annual business plans. The plans are submitted to Scottish Enterprise and form the basis for a contract between the two to deliver programmes and projects up to a level of funding approved by the national Network.

It is worth highlighting Glasgow Development Agency (GDA) as an example of a LEC. GDA is the largest LEC in terms of both staff (numbering 160 in 1992) and budget (£62 million in 1991-92). Following the general guidance laid down by Scottish Enterprise, the mission statement of GDA states that:

> The Glasgow Development Agency will be the principal agent of economic development within an alliance of organisations committed to making Glasgow one of the great centres of Europe. We are seeking to achieve this for the benefit of the people and businesses of Glasgow and

[20] The overlap between these elements and the principles of the Structural Fund reforms was keenly argued by Scottish Enterprise officials to the European Commission in 1991, when the officials sought (successfully) to ensure that the Scottish Enterprise Network should be eligible for Structural Fund support, as the SDA had been before 1991.

> in that process to establish a new organisation which is generally recognised as among the best development organisations anywhere in the world (quoted in Taggart 1992: 70).

While the aim to make Glasgow a great European city and the target of becoming one of the world's best development organisations are specific to the Glasgow Development Agency, three elements of the statement are emphasised by all other LECs: the identification of the LEC as the 'principal agent of economic development' within the local economy; the focus on partnership with other local organisations that have similar or parallel aims to the LEC; and the emphasis on involvement with the private as well as the public sector (Taggart 1992: 71-72).

LECs have greater powers than the corresponding bodies in England and Wales, the Training and Enterprise Councils (TECs). Although TECs are also private-sector led, they do not cover economic and environmental development in addition to training (McQuaid 1993: 101). At the time of the Scottish Office's 1991 consultation paper on local government reorganisation, the government argued that economic development should be left exclusively to LECs and removed from local authorities. This line of argument was toned down by the time of the second consultation paper (ibid.: 102). There is no doubt, however, that the Local Enterprise Companies are now the main vehicles for local level economic development in Scotland. The five LECs covering the current Objective 2 programme area of Western Scotland (Glasgow Development Agency, Lanarkshire Development Agency, Enterprise Ayrshire, Renfrewshire Enterprise and Dunbartonshire Enterprise) are in receipt of ERDF support for projects covering industrial sites and premises, business development schemes, and tourism and environmental schemes (as well as ESF for training). At this stage, some of the other partners should be introduced.

5.3.5 *Other Partners*

In addition to central government, in the form of the Scottish Office Industry Department (and the Department of Employment for ESF matters), the European Commission, the local authorities, Scottish Enterprise and the five LECs, ERDF programming in Western Scotland involves a range of other partners. These cannot all be considered in the same detail as the major partners analysed above, but a brief sketch of some of the remaining partners is necessary to give an understanding of the breadth of the partnership.

In respect of infrastructure provision, a range of public bodies qualified for ERDF support from the earliest days of the Fund. In Scotland, bodies providing public utilities such as *British Telecom*, the *Scottish Gas Board*, and the *South of Scotland*

Electricity Board were eligible for ERDF support, often in respect of providing supplies to new industrial developments. As shown below, the privatisation of such bodies in the course of the 1980s raised doubts about their eligibility for ERDF support and caused severe problems in spending the money allocated to the earliest programmes in Western Scotland. The *British Waterways Board*, managing canals and river navigations in Scotland, was also eligible, primarily for tourist related schemes, as were the *Scottish Tourist Board* and the network of local area tourist boards for the promotion and development of tourism in Scotland more generally.

The provision and maintenance of transport infrastructure is also the responsibility of a number of bodies, most of which are eligible for ERDF support. *ScotRail* (the name under which *British Rail* operates in Scotland) is responsible for all matters relating to the operation of the railway system in Scotland and has played a major role in the Western Scotland partnership. Partners similarly involved through their role in the provision of transport infrastructure include: *Clyde Port Authority*, responsible for the management and operation of commercial ports on the Clyde Estuary at Glasgow, Greenock, Hunterston and Ardrossan; and the *Civil Aviation Authority* which manages two major airports (Glasgow and Prestwick) located within the programme area.

The Western Scotland partnership also involves several of Scotland's 40 or so *Enterprise Trusts*. These bodies were first established in the early 1980s as 'private sector led non-profit making partnerships between the public and private sectors' with the purpose of helping people to set up their own businesses by providing free advice and support, as well as assisting existing small firms (Hayton 1992: 4). In 1981 the first Enterprise Trust in Scotland was established, the *Ardrossan, Saltcoats and Stevenson Enterprise Trust (ASSET)*, following the closure of the ICI nylon plant in Stevenson. The Trust, which was financially supported by the local authorities in the area, the SDA and ICI itself provided a range of business advice services. ASSET, along with the sixteen other Enterprise Trusts in the region at the time of the IDO submission, are eligible for ERDF support, and are represented under the 'umbrella' organisation of *Scottish Business in the Community (SCOTBIC)*. In 1994, around 15 Enterprise Trusts (often called Economic Development Companies) were involved in the programme through the provision of business development schemes, the supply of workspaces, environmental projects and training schemes.

Operating in slightly smaller areas with less emphasis on private sector leadership, representatives of a range of *Area Initiative* or *Joint Economic Initiatives* are also members of the partnership. These initiatives are often jointly funded by the Regional Council, the appropriate district council, development agencies and the private sector through Chambers of Commerce and are usually located in areas suffering severe deprivation, often within Glasgow's city boundaries. The general objective of such organisations is to promote job creation in specific unemployment black-spots, addressing a range of social as well as economic development issues. In 1994 around 15 such initiatives were members of the partnership.

Other partners involved in the Structural Funds implementation process in Western Scotland include the following: *Voluntary Sector Organisations* such as conservation trusts or heritage groups, which are organised under the 'umbrella' authority of the *Scottish Council for Voluntary Organisations*; *Educational Establishments* such as the Universities of Strathclyde and Glasgow and the 21 Further Education Colleges (run by Strathclyde Regional Council until 1993 when they became partners in their own right), which are eligible for Structural Fund support in respect of training and research and development projects; finally, the three *New Town Development Corporations* (for Cumbernauld, East Kilbride and Irvine) continue to receive ERDF support for environmental improvements and projects providing industrial sites and premises, although at the time of the writing these bodies are in the process of winding up their functions. The Development Corporations, accountable to central government through appointed boards, have played an important role in the past in the region's economy by developing green field sites to attract new industrial investment, and drawing up plans for the New Towns in an attempt to balance industrial, commercial, residential and community service developments (Keating & Boyle 1986: 33-37).

These are the actors, alongside the major partners such as central government, the local authorities, and the Scottish Enterprise Network/LECs, whose actions must be co-ordinated in the preparation of the regional development contract. Given their different strategic priorities, varying levels of commitment to the programming procedure, and the lack of a pre-existing regional policy-making framework in the UK to compare with the CSF structure, the first attempts at preparing a programme to satisfy European Commission requirements were highly problematic. A 'range of contingencies' affecting co-operativeness between partners and their enthusiasm for the ERDF programming process has been identified elsewhere (Tavistock Institute of Human Relations 1991: 21). The level of organisational support enjoyed by officials involved in the process, the extent to which officials work exclusively or only part-time on European funding, and the level of experience they have in the process all affect the extent to which the preparation of the contract is a smooth process. The grand aim of programming to influence the 'motives, commitment and co-operation' of officials (PACEC 1991: 3) can be understood as an attempt to align or co-ordinate the objectives of the many participants in the process. The extent to which this has been achieved in Western Scotland over the past decade should now be considered.

5.4 Preparing the Contract

Over the course of the last decade, there have in fact been four ERDF 'contracts' in west central Scotland: the *National Programme of Community Interest* 1984-1987 (NPCI) for Glasgow; the *Strathclyde Integrated Development Operation* (IDO) 1988-1992; the *Western Scotland Community Support Framework 1993* (CSF); and the current *Western Scotland Single Programme Document* covering the period 1994-1999. Only the latter two contracts were prepared under the terms of the 1988 Regulations. The main focus of this analysis is the period up to and including 1993, although both the NPCI and the post-1993 programme are also considered. The contracts have all followed on from each other, and successive periods have been intended to build on the general knowledge base in the region to accumulate a pool of experience in Structural Fund matters. The analysis over time allows a consideration of the extent to which this has been the case. Moreover, the transition period from 1992 to 1993 is of particular interest as this was the moment at which the partnership moved from the pre-reform arrangements to their first programme under the terms of the revised Regulations, and hence had to deal with the European Commission's new priorities.

Through all these various forms of programming, the European Commission has consistently sought to promote a 'strategic approach' to economic development and the use of the Funds. However, not only is the concept of a 'strategy' extremely difficult to define, but interviews confirm that local partners have complained that they have had very little guidance from DG XVI on just what a strategy should look like. Danson and Lloyd suggest that the essence of strategic planning lies in 'establishing a framework which gives guidance to lower level activities', and that 'strategic planning also provides a hierarchical management or administrative context to the devising, financing and implementation of initiatives concerned with economic development and land use planning' (1992: 47). A further element implies integration of activities 'to address the uncertainty in the complex processes and relations in economic regeneration' (ibid.: 47). The European Commission's understanding of a 'strategic approach' was outlined in the early 1980s through their plans for an 'Integrated Approach'.

Given the changing environment of regional economic development (the shift to bottom-up instruments in the policy periphery) and the need to utilise the scarce funds which were available to maximise their impact, the European Commission outlined the 'Integrated Approach' to economic development. A Commission working group set out its conclusions on the matter in the Commission document *COM(86) 401 final/2* (European Commission 1986). The general objectives of the Integrated

Approach were twofold: 'to bring out the potential for endogenous development' and 'to concentrate financial flows in favour of a region or sector'. These objectives were to be achieved as follows: by providing or reinforcing the basis for partnership between the Commission and national, regional and local authorities in the development process; by reinforcing the complementarity of Community structural interventions with national, regional and local sources of financing and thus increasing their efficiency and impact; and by developing multi-annual programming to reduce financial and administrative bottlenecks and accelerate development. The Integrated Approach 'demands an effort to promote coherence between the different realities of aims, actors and policies, the objective being to achieve "integration on the ground", i.e. between investments and activities in order to create and exploit to the maximum synergies and multiplier effects' (European Commission 1986). Such integration should be pursued through a programme framework and an integrated financial planning schedule. The Integrated Approach became the preferred 'Commission formula' for structural interventions and aimed to 'bring about a quantum improvement in the quality of public administration (including that provided by the services of the Commission) in the development process'. Although the Commission admitted that it was not a 'simple recipe', it provided the basis of a strategic approach (ibid.: 2-4).

The UK central government's policy on such a 'strategic approach' was governed by a desire to 'secure the maximum ERDF entitlement with the minimum administrative difficulties' (Mawson & Gibney 1984: 53). For this reason, the legal implications of the European Commission's earlier proposal for 'programme contracts' had been rejected. By 1984, however, UK civil servants were taking the view that loose programmes could simply be a means by which to bundle together a collection of vague projects, that might in fact reduce the costs of applying for swathes of projects. The Commission view was that programmes should be detailed strategic documents since, the more general the programmes were, the less influence and control the Commission would have over their implementation.[21] The first occasion when this tension came to the fore in Western Scotland was when the Regional Council applied for (and received) financial aid to conduct a study on the feasibility of preparing an Integrated Development Operation for Strathclyde.

5.4.1 *1984 Preparatory Study for an Integrated Development Operation*

The Preparatory Study for an Integrated Development Operation, submitted to the European Commission in the autumn of 1984, represents the first experience of

[21] This point was made by several interviewees in DG XVI.

the ERDF programming principle in Western Scotland, and as such, the beginning of the direct exchange relationship between the European Commission and local actors there in the context of ERDF support (Appendix 3 highlights the key dates in the programming of ERDF actions in Western Scotland). The preparatory study itself reveals the defining characteristic of that exchange by highlighting exactly what it is that is to be exchanged through the regional development contract: regional actors provide the local economic information desired by DG XVI, and bring forward their projects for co-financing, in exchange for some predictability in the flow of ERDF finances. Central government, for its part, allows the European Commission access to local actors in order to guarantee the UK's share of ERDF resources. Given the fact that the ERDF is a *co-financing* instrument, the relationship of dependency between the local actors on the one hand, and the European Commission and central government on the other, is not only one-way: ERDF resources cannot be drawn down (i.e. DG XVI cannot spend its budget) by the UK government (and the benefits to the UK Treasury maximised) without sufficient spending by local actors on domestic projects which qualify under the EC's criteria. The nature of this exchange relationship set up by the agreement of the regional development contract should now be considered in greater depth.

The nature of the exchange was clearly illustrated by the Assistant Director of Planning for Cunninghame District Council, a local authority lying within the subsequent IDO programme area, when he presented a seminar paper in March 1986 pointing out what district councils expect to benefit form ERDF programmes (Snodgrass 1986). Most obviously, councils expect guaranteed finance, and the higher grant rates that were generally available under programmes than for individual projects. Although no additional capital consents were issued by the Scottish Office in respect of ERDF receipts for capital projects, councils could still save on interest repayments.[22] Moreover, the guarantee of future ERDF resources for local authorities in eligible areas provided a key resource *vis-à-vis* central government in the allocation of capital expenditure approvals. Although the general trend in capital spending allocations was downwards, an ERDF programme would guarantee a certain level of capital consents in the area, in the absence of which local authorities would be unable to draw down resources (and hence the Treasury would not benefit) as the example of

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[22] A senior officer in the Chief Executive's Department of Strathclyde Regional Council explained how, for large local authorities, savings on interest payments for capital projects could amount to significant sums. With an ERDF grant to cover 50% of the costs of a capital project, loan charges could be reduced by 50%, so that as grants accumulated, the annual value could become quite significant. Savings of around £7 million per annum were enjoyed by Strathclyde Regional Council in the mid-1980s. Although the Treasury then reclaimed the benefits by reducing the Council's Rate Support Grant in subsequent years, Strathclyde Region still benefited by around £3 million per annum. If nothing else, this money could be used by the Council to pay the salaries of its economic development officers (Chorley 1986: 28).

the programme for West Cumbria in chapter 4 illustrates. In short, an ERDF programme would bring more 'predictability' of financial receipts (Snodgrass 1986).

The speeding up of administrative procedures and the direct involvement of the European Commission were perceived as further benefits associated with this predictability. A senior official of Strathclyde Regional Council pointed out at the same seminar that the most important benefit is the direct participation of DG XVI through the new Committee procedures: 'S[trathclyde] R[egional] C[ouncil] hope this will enable the Commission to gain first hand appreciation of our needs, priorities and programme development processes - we would like to look forward to this experience feeding into the future EC priorities and administrative procedures' (Chorley 1986: 30). It should be noted, however, that such adaptation to administrative processes is not a one way process. Of course, the European Commission also wanted to influence the development process in the region, and the type of projects brought forward for co-financing. To do this it needed information on the regional economy and spending priorities of local actors. Cunninghame District Council's Assistant Director of Planning provided an early illustration of the Commission's hunger for information. In the case of tourist projects he found: 'one of the most frustrating aspects of tourist related applications is the constant requests for additional information, more statistics, sources of information, justification [from DG XVI]' (Snodgrass 1986: 23). The preparation of the programme itself, in particular the requests by the Commission for clear and quantifiable objectives drawn up on the basis of an analysis of the regional economy, further illustrate the nature of the exchange.

In 1983 the European Commission agreed to pay 75% of the costs of a preparatory study on the suitability of an IDO for Strathclyde (the other 25% being paid by Strathclyde Regional Council). The study was co-ordinated by a Study Steering Committee comprising officers of Strathclyde Regional Council (who chaired the Committee), Glasgow District Council, the Industry Department for Scotland and the Scottish Development Agency. Much of the work was carried out by the consultants Roger Tym and Partners in conjunction with the staff of Strathclyde Regional Council. The European Commission, which did not participate in the study group, was finally presented with a report which served two purposes: firstly, it formed an application for the designation of Strathclyde, on the basis of the programme detailed in the document, as the location for an IDO to take effect from 1 January 1985; secondly, it acted as a general introduction to the IDO and a description of its contents for dissemination within the proposed programme area. The provision of information was central to both these purposes, in the first instance information provided to the European Commission, and secondly for distribution within the region itself.

The preparatory study constituted an impressive data collection exercise, involving a range of regional actors in what appeared to be the preparation of a rationally-determined regional development plan. The need for such co-ordination was highlighted in the study itself which referred to the 'compartmentalised' nature of the different economic activities supported in the region (Roger Tym & Partners 1984: 3). The study thus concluded that 'one of the benefits of introducing the IDO is to improve co-ordination in policy development and implementation in the area' (ibid.: 46). The scope for co-ordination was emphasised in several different aspects of the Programme:

- in the coherence of different elements of the Programme in forming an appropriate development programme for the area;
- in encouraging co-operation between agencies to make up comprehensive programmes of action, and to jointly support individual projects within those programmes;
- in combining as far as possible contributions from different funding sources to individual projects to maximise the impact of Community funds on their feasibility and scale (ibid.: 46).

For the purposes of co-ordination, the study suggested, European Commission involvement was essential: 'by far the most important and valuable improvement in coordination to which the IDO can contribute is between the operations of local agencies and the European Commission' (ibid.: 47).

As a first step, the European Commission required an analysis of the different activities and priorities of the local actors, and an assessment of the development needs of the region:

> The first task of the Study was to prepare basic reviews of 16 topic areas important to the development of the City. These reviews covered the main programmes of infrastructure provision, economic development and urban development. In each case the reviews described issues and problems currently facing the area, the policy framework of agency responsibilities and powers intended to deal with problems, the current programmes in operation and the role of EC finance within them, and the potential for improving or extending programmes in future with particular reference to the use of EC funds. Additional work was undertaken to compile statistics on the past use of EC funds in the area, and to produce a general background of regional development trends and policies in the area (Roger Tym & Partners 1984: 6).

This was exactly the type of data sought by the European Commission in the first decade of the Fund's operation (see chapters 3 and 4 above), but which central government departments were reluctant to spend the resources to provide. Strathclyde

Regional Council undertook the task of co-ordinating the study exercise in 1983 and 1984, but only with the prospect of an IDO eventually being approved for the region.

Strathclyde Regional Council required the participation of a number of bodies to compile the necessary information. The agencies involved were basically those which had received EC funds in the past in Western Scotland. The Regional and District Councils, together with the SDA and the Department of Industry for Scotland were the key actors. These bodies also received co-operation from other public agencies with responsibility for economic and infrastructure programmes in the city, including the Manpower Services Commission, British Rail, the Scottish Gas Board, the South of Scotland Electricity Board, British Telecom, Clyde Ports Authority, the Scottish Tourist Board and Scottish Sports Council, and the British Airports Authority. All these agencies, each of which held relevant data on the regional development needs and opportunities of Strathclyde, contributed to the compilation of the study report (Roger Tym & Partners 1984: 4). To economise on the costs of preparing the report, however, a decision was taken to concentrate the study on Glasgow.

The preparatory study was also clear on the extent to which it was simply a 'bolting together of the existing organisations' existing spending plans, rather than a new strategy: 'the IDO is not a new development plan for the area: it is intended to complement national and local programmes, not cut across them. The themes around which the IDO Programme is organised, and which provide one way of integrating the Programme are, therefore drawn from existing priorities of agencies responsible for the development of the area. Although they are not new, the themes encapsulate recent developments in policy approaches, and thus provide a framework for the recent changes in economic circumstances and national policies' (Roger Tym & Partners 1984: 12). The proposed IDO would support two (general) principle objectives, unifying a wide range of existing activities in the area: the promotion of indigenous economic development; and, measures to deal directly with the social consequences and deprivation associated with economic change. Although these objectives were deemed to encapsulate changes in the emphasis of local policies which had evolved in recent years, it was acknowledged that they were 'an endorsement of existing policies rather than a new development strategy for the area' (ibid.: 47).

Table 5.2: IDO Preparatory Study (1984) Proposed 'Programme Areas'

Programme Area	Proposed Share of Expenditure
Economic Adaptation and Industrial Support	9%
Manpower and Social Development	21%
Infrastructure and Services	64%
Urban Image and Environment	6%

Source: Roger Tym & Partners (1984) *Integrated Development Operation for Strathclyde: Final Report Preparatory Study* (Glasgow: Roger Tym & Partners)

The submission to the European Commission sought £277 million support for four proposed 'Programme Areas', which would have guaranteed each of the organisations involved in the preparation of the study a share of ERDF expenditure. The first was for *Economic Adaptation and Industrial Support*, absorbing a proposed 9% of the estimated total expenditure, with over 80% going directly to the Industry Department for Scotland to support the centrally run Regional Investment Incentives and Small Firms Services schemes. *Manpower and Social Development* would have absorbed 21% (from the ESF), going almost equally to the Manpower Services Commission and Strathclyde Regional Council. *Infrastructure and Services* was by far the largest proposed Programme Area at 64% of estimated total expenditure, with over 50% going to Strathclyde Regional Council, and the rest to British Telecom, British Rail, the SDA, and Glasgow District Council. The District Council and the SDA also stood to gain from the final Programme Area, for *Urban Image and Environment*, expected to absorb 6% of the programme expenditure.

Despite indicating a detailed financial plan, the report emphasised the uncertainty of many aspects of the programme, and hence the incomplete nature of the proposed contract. As well as co-ordinating action, the IDO would require flexibility: 'the Programme will cover five years, and will be regularly updated to reflect changing circumstances and resources' (Roger Tym & Partners 1984: 3). Most obviously, changing economic circumstances could have direct implications for the focus of the programme. In addition, all partners were learning as the IDO proposal unfolded, including the European Commission itself: 'IDOs are still in their early stages so far as the Commission is concerned and are an entirely new concept for Strathclyde. There are, as yet, no ground rules for the form they should take or evidence of the benefits that will accrue' (ibid.: 4). Finally, central government's policy of non-additionality made the future financing of local authority projects very uncertain. The study pointed out that 'it is important to note that it is not only local actors who determine policy and resource flows: real benefits to the area from the IDO depend upon the responses to this Report of the UK central government and the European Community. UK government could greatly enhance the impact of Community funding in the area by a more flexible attitude to spending by local agencies which attract European support' (ibid.: 5). For the years after 1985 therefore, the status of projects included in the programme were uncertain due to continuing public expenditure constraint: 'the uncertainties it imposes on local authority budgeting, means that expenditure on projects commencing after the current or next financial year can never be regarded as firmly committed' (ibid.: 16). It was the potential reduction of this uncertainty that local authorities sought to secure through the programme: 'it is hoped that the implementation of the IDO will lead to a more flexible attitude on the part of the UK government to the sanctioning of expenditure on projects partially financed through EC funds (ibid.: 47).

Precisely because of these uncertainties, Keating and Boyle (in one of the very few academic considerations of the proposal) were highly dismissive of the proposed IDO:

> The practical content of the proposal is in fact little more than a rehearsal of existing uses of Community funds in Glasgow - but without reference until the final section to the non-additionality rule - and a projection of them into the future. Local authority projects are also included but, given the inability of councils to commit themselves to major capital expenditures for a five-year advance period, only the EC contribution to them is specified, though this contribution will, of course, only be forthcoming if the local authorities proceed with the projects. Although the IDO is presented as an integrated package, its content is more of a shopping list of projects eligible for funding from EC sources (1986: 68).

The authors therefore painted a bleak picture of the Commission's ability to promote a strategic approach and concluded:

> ... there is a great deal less to the Glasgow IDO than meets the eye. It may have a certain promotional significance for the local authorities and for the Community, which is anxious to promote the disbursement of its funds... It does not, however amount to a new development plan nor, indeed, to the sort of strategic intervention in selected projects which would have allowed the Community to target its resources on

items central to its own policy objectives and to gain the maximum leverage over these (ibid.: 68).

Nevertheless, Strathclyde Regional Council later boasted its success in adapting to the European Commission's requirements for a strategic programming approach. A Council publication suggested that 'all outside observers seem agreed that Strathclyde's success in persuading European funds to support regional schemes rests on two factors: the good relationships that have been built up all along the road to Brussels; [and] the expertise of officials in preparing applications. By all accounts, they have got the technique of filling in Euro-forms down to a fine art. It's a bit like passing examinations: the first essential is to read the question carefully; after that, the candidate must know how to answer it clearly using the language and references guaranteed to appeal to the examiner' (Strathclyde Regional Council 1987: 4). However, this knowledge was hard-earned. After the preparatory study, the Government and Strathclyde Regional Council were asked to extend the proposal beyond Glasgow to cover most of the region and the IDO was not immediately approved. The Industry Department for Scotland claimed that, at a practical level, the Commission was unable to achieve both the integration and funding required to make the concept a reality. In the interim period, the Commission suggested to the UK authorities that elements of the programme proposed by the study could be re-presented as an NPCI under Articles 10-12 of the 1984 ERDF Regulation.

5.4.2 *National Programme of Community Interest for Glasgow*

In general, the prospect of a National Programme of Community Interest was widely welcomed by local authorities, as it offered them 'the substantial benefits of a predictable five year package of support and one which commits other organizations to provide multi-annual investment' (Croxford, Wise & Chalkley 1987: 36). The 'stumbling block' was again that such programmes could prove difficult and expensive to devise in the UK, given the lack of experience of national and regional authorities in the matter (ibid.: 34). Nevertheless, despite an apparent hostility to programming, the UK government was in the forefront of programme financing in that it was the first member state (with France) to apply for an NPCI, and made applications for over 20 NPCIs between 1985 and 1988. In December 1985 the NPCIs for the UK areas of Shildon/Newton-Aycliffe/Bishop Auckland, the Mersey Basin and the City of Glasgow were the first three to be approved by the European Commission. This earliest form of programming, bundling together projects in a loose programme format, reduced the costs to central government of applying for support. Under the first ERDF programme approved for Western Scotland, the NPCI for the City of Glasgow, the European

Commission allocated £68.2 million to support a proposed £124 million programme of infrastructure measures to contribute to the economic development of the city. Although Strathclyde Regional Council had intended that the IDO preparatory study would form the basis of an IDO for the whole of Strathclyde, the European Commission suggested that an NPCI application should be made requesting solely ERDF support and covering Glasgow alone.

The statutory basis for the NPCI had been set out in Council Regulation (EEC) No 1787/84 of 19 June 1984. The NPCI was defined at national level and consisted of a set of measures to be undertaken over a number of years. This set of measures was to be internally consistent and also consistent with national and community objectives. ERDF assistance through an NPCI could be awarded only to areas that were aided by the member state under its own system of regional aid. The ERDF contribution to the financing of an NPCI was determined in the light of the socio-economic situation in the area and the types of measures involved in the programme: the standard ERDF contribution amounted to 50% of total public expenditure in the programme and this could rise to 55% for programmes of particular importance for the area in which they were located. In general, to be suitable for ERDF assistance the programme measures could concern (jointly or separately) infrastructure investment, and schemes for industry, craft industries and services, but the Glasgow NPCI was confined to infrastructure investment alone (and hence capital expenditure).

Following the initial failure to secure an IDO, the negotiation of the NPCI was conducted almost exclusively by the Industry Department for Scotland with little local involvement. The first draft of the NPCI was drawn up by the Scottish Office early in 1985 and submitted to the European Commission on 15 May that year. The programme reflected the priorities and objectives identified in the preparatory study conducted during 1984 into the feasibility of an IDO, but while the report had established a framework for potential integration of EC and UK funds to meet the social development requirements of Strathclyde as well as the economic problems, the NPCI focused solely on the infrastructure needs which had been highlighted in chapters 6 and 7 of the Study Report. It was envisaged that human resources and social development would be tackled by application to the ESF on a project by project basis. The programme area was centred on the city of Glasgow, essentially the area covered by the City of Glasgow District Council, but some of the measures extended beyond the city boundaries since they had a major impact on economic activity in the city itself, for example treatment work on water and sewerage plant just outside the city boundaries. The area was contained within the Glasgow Travel-to-Work-Area (TTWA) and had Development Area status, meaning that firms within the area qualified for the highest level of assistance under UK regional policy.

In considering its response to the programme submission in June 1985, the European Commission was unhappy at the absence of quantified objectives and the lack of co-ordination between the proposed sub-programmes of expenditure. Moreover, the Commission expressed to the IDS its concern that there were no 'software measures' included in the submission, despite DG XVI's call for so-called Article 15 measures (see chapter 3). Finally, DG XVI insisted that a local level co-ordinating body should be established to aid the flow of information between partners and provide some flexibility in programme management. Correspondence on these issues continued for several months before the application was revised and re-submitted in September 1985. The Commission Decision of 12 December 1985 ultimately approved ERDF support of £68.2 million for an NPCI for the City of Glasgow totalling £124 million of public expenditure. The programme could part-finance eligible expenditure incurred between 1 June 1984 (i.e. it could fund projects retrospectively) and 31 December 1987.

The two broad objectives of the NPCI strategy were set out in paragraphs 1.22 to 1.28 of the Programme submission. These were highly general, as they simply sought 'to contribute to economic development: by adding to, or improving on, strategic city-wide infrastructure systems such as major regional roads and motor ways linking with the trunk network, suburban rail networks, the network of vocational training centres; and, by adding to, or improving, infrastructure in particular localities, specifically industrial and commercial areas, and localities covered by Area Initiatives'. These objectives seem to constitute a simple rationale for public infrastructure investment across the city (covering Strathclyde Regional Council functions), or in specific localities where the other partners had planned investment. The expected expenditure plan guaranteed each partner a 'slice of the cake'. Strathclyde Regional Council, as the main provider of infrastructure in the region was to be the main recipient of funds, attracting 53% of the total expenditure. The proposed shares for other participants (ScotRail 21%; Glasgow District Council 9%; South of Scotland Electricity Board 8%; Scottish Development Agency 7%; and British Gas 2%) reflected the capital expenditure they had planned in the programme area over the eligible period.

The Addendum to the Commission Decision of December 1985 awarding the NPCI set out a number of criteria which are of relevance here. In particular, the Addendum made provisions for a local level co-ordinating committee and for programme flexibility. These linked issues should be considered briefly.

The Addendum stated that 'a Co-ordinating Committee constituted of representatives of the Industry Department of Scotland, Strathclyde Regional Council, the City of Glasgow District Council, the Scottish Development Agency, the South of

Scotland Electricity Board, the Scottish Gas Board, British Railways and the Strathclyde Transport Executive and a representative of the Commission nominated by the Directorate-General for Regional Policy is hereby established' (European Commission 1985a: point 2). Moreover, it was stated that 'the Co-ordinating Committee shall co-ordinate *the choice of measure under the programme* and the administrative and financial arrangements for implementation of the programme', but as shown below, this claim was somewhat optimistic. Nevertheless, for the first time the Programme Co-ordinating Committee brought together the six implementing bodies of the programme, under the chair of the Industry Department for Scotland and with the active participation of European Commission representatives. Strathclyde Regional Council's initial reluctance to participate in a committee with executive functions to alter the Council's spending priorities was soothed when the Scottish Office insisted that the committee had no decision-making function. Similarly, for this reason, the committee was comprised of officials and not elected politicians. The growth and expansion of the institutional arrangements governing ERDF programming in Western Scotland from this small seed are analysed in chapter 6.

The committee sought to introduce some flexibility to programme management. The Addendum had therefore set out a number of provisions designed to enhance the adaptability of arrangements. Any substantial amendment of the programme, however, would require the agreement of the European Commission as set out under Article 14 of Regulation 1787/84. Nevertheless, the Commission also sought to preclude from the outset categories of expenditure which it did not regard as suitable for ERDF support. A separate annex included a list of categories of infrastructure specifically excluded from Fund support, covering such items as housing, hospitals, educational establishments, fire stations, public administration buildings and leisure facilities not connected with tourism. The eligibility of British Gas projects was more uncertain. With the likelihood of privatisation surrounding this body, and hence the likelihood that it would lose eligibility for ERDF support, the following proviso was built into the contract: 'in the event of a decision being taken by the UK authorities during the lifetime of the programme to privatise the body responsible for the implementation of projects relating to the supply of gas, the granting of aid in respect of the said projects shall be suspended as and from the announcement of the decision pending detailed examination by the Commission of the terms under which the body may be privatised to determine its eligibility for aid under Regulation 1787/84' (ibid.: point 10). As shown in chapter 7, the eventual privatisation of British Gas caused a number of projects to be dropped from the NPCI.

A general point about the NPCI that should be emphasised is the possibility it provided for *policy learning* prior to the approval of a full Integrated Development

Operation. The Glasgow NPCI was viewed by all partners, including the Scottish Office and DG XVI, as a forerunner for an eventual IDO for the whole of Strathclyde.[23] Several of the participants in the NPCI suggested that participation in the ERDF programming process involved a 'steep learning curve', and that there was therefore a benefit to be gained from simply taking part, in terms of the co-operation between participating authorities, not to mention a closer relationship with Commission. Chapter 7 considers some of the problems involved in the implementation of the NPCI (expenditure slippage; eligibility of the partners; additionality in practice) and the lessons that might therefore have been drawn by participants. By the time the IDO was approved, the partners had some two years experience of programming. However, the extension of eligibility to new partners and the introduction of ESF financing to the contract made programming significantly more complex. It is to the IDO itself that the chapter now turns.

5.4.3 *Strathclyde Integrated Development Operation*

Preston and Hogg (1990) suggest that there were fundamental problems involved in the implementation of IDOs which were not fully appreciated at the outset, blaming inadequate staffing and limited co-ordinating machinery at the EC level for this. As suggested above, the Commission (like the other partners) was learning as it proceeded, not least because it was faced with a different administrative structure in each of the member states which was the subject of an IDO. This could cause frustration among local actors who sought clear guidance on IDO requirements from Commission officials. Preston and Hogg quote one local government official in England as saying that the IDO concept was like 'a beast coming out of the mist' (1990: 29), and add that 'the general outline of an IDO is clear, but it is only as the mist disperses that one might see the detail' (ibid.: 29). Many local government officials believed the Commission was not only vague in terms of its requirements, but it was at the same time unrealistic in the level of detail it required. Nevertheless, many local actors were ultimately prepared to exchange this information for the perceived benefits an IDO would bring.

The first point to note about Strathclyde IDO is that more actors participated in the preparation of the IDO than had participated in the preparation of the NPCI. This reflects the wider geographical coverage of the IDO as well as the wider variety of tasks eligible for support. Leitch (1989) suggests that the IDO preparation was a further attempt by the Commission to impose a rational decision-making system on

[23] See 'EEC Boosts £140m Plans for Glasgow' in *The Glasgow Herald* of 29 November 1985, where Strathclyde Regional Council confirmed its expectations that a full IDO would follow the NPCI.

the local actors in the field of economic development policy. A process of intelligence gathering followed by an analysis of the strengths and weaknesses of the local economy, led to the formulation of objectives and priorities for action. Such planning would not have taken place in the absence of European support. As the IDS told Strathclyde Regional Council by letter in March 1989, 'the government does not believe in regional planning as such' (Leitch 1989: 37). Leitch himself noted that 'while there may be a consensus concerning the objectives of the IDO, there may be a lack of depth to this, with more prominence given to the objectives of the individual organisations by the participants concerned in the IDO' (ibid.: 43). Moreover, the objectives of the IDO remained very broad in order to ensure agreement among the partners. However, this vagueness also facilitated opportunism and the pursuit of organisational rather than programme objectives.

Another point to note about the preparation of the IDO is that, even years after the possibility of an IDO for Strathclyde was first raised, the agreement of the contract required a full year of negotiation (as Appendix 3 shows). Between September 1987 and October 1988, the European Commission met several times with the Scottish Office to seek a tightening of the terms of the contract. A general misunderstanding had arisen between the European Commission and UK central government as to what precisely constituted an IDO. The UK view was that such contracts were simply umbrella documents under which, *and following which*, the various Structural Fund elements would fall into place. One Scottish Office interviewee expressed the opinion that those officials involved in the preparation of the programme believed that the IDO constituted simply a 'coat without a body'.[24] DG XVI, on the other hand, sought a tighter specification of the proposed strategy.

Within the European Commission there existed a 'Technical Group on Integrated Approaches' which considered applications for Integrated Development Operations. This group comprised officials from a wide range of Commission services, including the following: DG II (the Directorate-General for Economic and Financial Affairs); DG III (Industry); DG IV (Competition Policy and State Aids); DG V (Employment, Industrial Relations and Social Affairs); DG VI (Agriculture); DG VII (Transport); DG XI (Environment, Nuclear Safety and Civil Protection); DG XIII (Telecommunications, Information Industries and Innovation); DG XIV (Fisheries); DG XVI (Regional Policies); DG XVII (Energy); DG XVIII (Credit and Investments); DG XIX (Budgets); DG XX (Financial Control); DG XXII (Co-ordination of Structural Policies); as well as officials from the Legal Services and the Task Force for SMEs. The problems this group identified with the proposed IDO were broadly similar

[24] Principal, European Funds and Co-ordination Division (Structural Funds Policy and Plan Writing), Scottish Office Industry Department; Edinburgh, 16 January 1992.

to the problems DG XVI had earlier identified with the Glasgow NPCI. Again, there was a heavy bias in favour of infrastructure while little attention was paid to software measures, with no economic justification for the balance between the two. Similarly, the strategy remained ill-defined with poorly substantiated objectives and targets. Environmental improvement measures *per se* were also not acceptable to the European Commission, unless they were directly linked to job creation. A four person delegation from this group (two from DG V, one from DG XVI and one from DG XXII) travelled to Edinburgh early in November 1988 to meet Scottish Office and Strathclyde Regional Council officials to discuss the necessary amendments and a third draft of the IDO was prepared for submission to the European Commission.

In the end, it was agreed by all participants to submit an IDO for approval that consisted of two major elements: an ERDF financed NPCI for Strathclyde and a linked ESF programme. Complete integration of the funds in a single programme had proved too difficult to achieve, and the compromise of two separate programmes existed within the new IDO framework. The IDO was again submitted to the European Commission in November 1988. By this stage, it would have been extremely difficult for the Commission not to approve the IDO. The original application had been received in October 1987 (1984 if the original preparatory study is taken as the starting point) and the subsequent detailed and exhaustive discussions with the UK central and local authorities created an expectation that the document would be approved without delay. Any further delay would have carried the process into 1989, which would have meant that the region was then subject to the revised Regulations which were due to come into effect on 1 January 1989. This would have meant a new process of programme preparation (amidst the frustration of a failed IDO application) according to new eligibility criteria and new priorities for support. Against this background, the European Commission approved the Strathclyde IDO on 21 December 1988, only ten days before the new Regulations came into effect. At that time, the Strathclyde IDO was the largest programme of its kind in the EC. The programme covered only the Development Areas of Strathclyde Region, that is the parts of the region eligible for the highest level of domestic assistance under UK regional policy. This included most of the region, except the Travel-to-Work-Areas of Ayr and Girvan, and the rural areas of Argyle and Bute which were included in a separate programme for the Highlands. The main financial components of the package are summarised in table 5.3.

Table 5.3: Strathclyde IDO (1988-1992) Financial Package

European Community Instrument	Award
ERDF National Programme of Community Interest	£232 million
ESF Programme	£42 million
European Investment Bank Loan	£80 million
European Coal and Steel Community Loans	£24 million
Total	£378 million

Source: Pieda plc. (1993) *Strathclyde Integrated Development Operation: Interim Evaluation* (Edinburgh: Pieda plc.).

The *ERDF National Programme of Community Interest* allocated £232 million to be spent largely on infrastructure projects in the area. The *ESF Programme* allocated £42 million to be spent on a range of training and recruitment incentive schemes. An associated *European Investment Bank (EIB) Loan* of £80 million was designed for road, water, sewerage and public transport projects. EIB loans could be used to fund the proportion of projects not grant aided. That is, the 50% of matching finance to be provided by local actors could be borrowed at favourable rates from the EIB. Further loans of £24 million were available under the *European Coal and Steel Community Loans* scheme. It was intended that these loans would be made available through commercial banks to small businesses, but given the inability of DG XVIII (Credit and Investments) and intermediaries in the UK to agree contractual arrangements, ECSC loans did not ultimately form part of the package of the Strathclyde IDO.

The 'strategy' outlined in the programme sought to achieve eight inter-related economic development objectives for the Strathclyde economy. Schemes approved under the IDO had to relate to at least one of these objectives:

- *A focus on growth opportunity industries* - to focus development programmes and initiatives on industries offering growth potential in the 1992 (Single Market) context;
- *The Development of Small and Medium-Size Enterprises (SMEs)* - to encourage the formation and subsequent growth of local enterprise;

- *The Promotion of New Technology* - to assist local industry to introduce new technology in its products and production processes, in particular through better links with higher education and research institutions;
- *An Expansion of Inward Investment* - to build on successes in attracting and expanding inward investment, particularly by attracting overseas companies seeking a European base;
- *Tourism Development* - to develop a vigorous tourism industry for the urban as well as rural parts of the area, attracting significantly larger numbers of international events and tourists, raising their levels of expenditure in the region;
- *External Communications Improvement* - to improve external communications to help industry meet the challenges and opportunities of the Single Market and to reduce the costs of access to the market;
- *Development of the "Metropolitan Heart"* - to create a modern metropolitan heart building on the established business, tourist and cultural centre of Glasgow as a source of growth for the whole region;
- *Improvement of the Area's Image* - to replace the area's perceived image as an outdated, outmoded industrial region with that of a region with technologically progressive industries, strong cultural and environmental attractions and a labour force equipped with the skills required for the 1990s (see Pieda plc. 1993: 9-10).

These objectives are considerably more developed than those of the NPCI, and to this extent the IDO represented (at least superficially) an advance in terms of regional development 'strategy'. Moreover, on balance the objectives stress industrial development more than basic infrastructure. This does not mean that there was an explicit sectoral strategy at the regional level. The only 'sector' mentioned is tourism. As explained below, the inclusion of tourism development as an objective reflects the fact that this guarantees the district councils in the region a share of expenditure. District councils provide tourist related infrastructure and services and hence this 'sector' is guaranteed a place in the strategy, notwithstanding the fact that jobs in the tourist industry are usually low-paid, seasonal and often part-time. Nevertheless, the objectives imply a focus on improving general industrial competitiveness in the region, through SME support and technology development. However, the Action Programmes through which the IDO strategy was to be delivered remained heavily biased in favour of capital-financed infrastructure, and in a way that guaranteed each partner a share of resources. Eight Action Programmes (seven ERDF and one ESF) were set out in the IDO document:

1. *Enterprise, Innovation and Investment* - much of the expenditure under this Action Programme was expected to be allocated directly to the central government's own *Enterprise Initiative*, to cover grants and loans for small businesses for consultancy, design services etc.
2. *Industrial Sites and Premises* - this Action Programme sought to provide small workshop units, primarily for manufacturing businesses, and would be

undertaken by district councils, ScotRail, the Scottish Development Agency, and Strathclyde Regional Council.

3. *Tourism Facilities* - this Action Programme was designed to support major tourism developments with the ability to attract large numbers of people from outwith the region, and would largely be undertaken by district councils.
4. *Transport and Communication* - Strathclyde Regional Council and the New Town Development Corporations qualified under this Action Programme for road improvement schemes, while the Strathclyde Passenger Transport Executive (part of the Regional Council) and ScotRail qualified for rail modernisation and extension schemes.
5. *Utility Services and Waste Disposal (Underground Services)* - This Action Programme essentially supported the Regional Council's water and sewers development projects, including schemes to replace sea outfalls to reduce coastal pollution and bring beaches to EC standards and water treatment to meet water quality standards.
6. *Environmental Improvements* - various agencies were involved under this Action Programme to improve the environment of areas *with potential for industrial or tourist development.*
7. *Vocational Training Facilities* - This Action Programme was the seventh funded by the ERDF, supporting infrastructure and hardware used at vocational training centres, and primarily spent by the Regional Council's Further Education Colleges.
8. *Manpower and Training* - This was the Action Programme funded through the ESF, to assist training and recruitment incentive schemes run by the Regional Council, the Training Agency, Enterprise Trusts and the universities. Four categories of measures were proposed under the Action Programme: training in business skills; re-training in new technology; training for growth opportunity industries; and, recruitment and training incentives.

Table 5.4 shows the proposed share of the total £232 million for each of the seven ERDF Action Programmes. As with the NPCI, Transport and Communications was expected to receive the single largest share of the programme, reflecting the priorities of Strathclyde Regional Council and central government. Only the Enterprise, Innovation and Investment Action Programme was to involve primarily revenue expenditure, while the others involved overwhelmingly capital expenditure. Notably, for this reason, that revenue-based expenditure which was to be admitted was to be undertaken primarily by central government itself. In this way, central government could ensure that no additional resources were allocated to local actors.

Table 5.4: Strathclyde IDO 1988 Proposed Financial Plan for Action Programmes

	Proposed Share of Expenditure £ (%)
ERDF Action Programmes	
Enterprise, Innovation and Investment	37,354,000 (16%)
Industrial Sites and Premises	18,100,000 (8%)
Tourism Facilities	17,000,000 (7%)
Transport and Communications	85,350,000 (37%)
Underground Services	57,200,000 (25%)
Environmental Improvements	14,200,000 (6%)
Vocational Training Facilities	2,450,000 (1%)

Source: Pieda plc. (1993) *Strathclyde Integrated Development Operation: Interim Evaluation* (Edinburgh: Pieda plc.).

In the case of the IDO, the incomplete nature of the contract between the partners was again recognised in the need to allow for uncertainty and hence to build some flexibility into the programme. The original IDO proposal set out with some clarity the potential sources of uncertainty: 'it is expected that a periodic review of the projects and programmes of the I[ntegrated] O[peration] will be required. Although EC financial assistance will be a crucial factor in determining whether projects can proceed, progress will also reflect other significant factors. These include:

- physical delays in capital projects;
- take-up under a number of programmes will depend on demand by private firms, voluntary organisations and educational institutions;
- the time required to specify some elements in more detail and to secure inter-agency co-operation; and
- the level of resources available to implementing agencies from non-EC sources (Industry Department for Scotland/Strathclyde Regional Council 1987: 85).

Moreover, interview sources within the Strathclyde IDO Programme Executive, set up to provide a secretariat to the programme (see chapter 6), have confirmed that over 50% of projects change their financial profile during the course of implementation due to changes in tendering documents or delays in physical projects, for example. Given this degree of uncertainty in forecast expenditure, it was proposed that the programme should be subject to general review after three years, and that a financial re-phasing or adjustment may be appropriate at that time. The Commission Decision approving the

IDO therefore explained that one of the tasks of the Co-ordinating Committee would be 'to recommend to the Commission modifications to the IDO where it considers this necessary in view of the socio-economic situation and the progress made in implementing the IDO' (European Commission 1988: 9). As shown in chapter 7, a re-phasing of the expenditure profile did indeed occur under the IDO when (as an example of the ongoing nature of bargaining in the contractual relationship) resources were re-directed away from the Action Programme prioritised by the European Commission towards those favoured by central government.

As suggested above, the Strathclyde IDO was approved only days before the reformed Regulations came into effect. In fact, the NUTS level III region of Western Scotland had already been declared eligible for Objective 2 status before the approval of the IDO. The IDO itself covered the entire Objective 2 area with exception of the Travel-to-work-Areas of Ayr and Girvan. By the time of the first meeting of the Strathclyde IDO Co-ordinating Committee in Glasgow on 19 May 1989, the new Regulations had been in place for almost six months. The Industry Department for Scotland informed the Committee that a *Regional and Social Conversion Plan* for Western Scotland had been submitted to the Commission in line with the new three-stage planning procedure. Over the next six months, there was extensive negotiation between the DTI and the European Commission over the *Community Support Frameworks* for eligible regions in the UK, but the CSF for Western Scotland simply reflected the pre-reform IDO strategy. The most significant difficulty was the inclusion of Ayr and Girvan[25] in the post-reform programming procedure, as the geographical extension of the programme therefore brought in new actors, increasing the number of district councils and Enterprise Trusts eligible for support under the Strathclyde IDO.

As shown in the case of the NPCI, geographical extension and a widening of eligible expenditure categories are not the only means by which the partnership is changed. The ultimate privatisation of British Gas is mirrored to an extent by the example of the Scottish Development Agency under the IDO. The logic behind the merging of the SDA with the Training Agency to create the Scottish Enterprise and Local Enterprise Companies Network was analysed earlier in this chapter. Following extensive discussions between DG XVI officials and the Scottish Office in late 1991 on the operational rules of LECs, the European Commission agreed that the Scottish Enterprise Network should be eligible for Structural Fund support. The Commission had sought and received assurance from the UK central government that, in setting the public expenditure plans and the budgets of individual LECs for business development

[25] These TTWAs had not been included in the original IDO application as they did not qualify for Development Area status under UK regional policy.

measures, capital investments and environmental improvement works would be increased by the amount of any ERDF grant for the year in question. The Scottish Office did not claim to operate a system of global additionality in the case of the LECs: budgets were set without reference to anticipated ERDF receipts, so that ERDF grants would produce an increase in the relevant LEC's budget of the same amount, without cuts in the following year's budget. In January 1992 DG XVI officially informed the UK Permanent Representation (UKREP) of the decision to agree to the eligibility of Scottish Enterprise and the LECs, thereby expanding the partnership further.

Interview sources have revealed that a key meeting took place between senior DG XVI officials and Scottish Enterprise executives in Brussels in January 1992, shortly after the Commission's formal acceptance of the eligibility of the Network for Structural Fund support. DG XVI expressed the view that Scottish Enterprise in particular, but also the LECs, should have a higher profile in programming activities in Scotland. Given the strategic function of Scottish Enterprise in the elaboration of a medium-term regional development strategy for Scotland, the potential input of the Network into the post-1993 plans was significant. The European Commission also urged a greater advisory role upon the Network and the LECs in project selection through the Monitoring Committees (see chapters 6 and 7). The highly sensitive issue of the closure of the British Steel plant at Ravenscraig in Lanarkshire (within the IDO area) was also discussed. While the partnership had agreed to attribute special priority to projects coming from the Lanarkshire area, local authorities there had not been proactive in bringing forward projects. The Scottish Enterprise executives therefore undertook to meet the relevant LEC (the Lanarkshire Development Agency) to encourage a drive for more and higher quality project submissions from that part of the programme area.

The creation of Scottish Enterprise and the LEC Network is highly significant in terms of the *asset specificity* of the resources brought to the exchange relationship by the pre-existing partners. The SDA had played little part in ERDF measures given the lack of additionality for its projects. Scottish Enterprise, by contrast, sought an active role in Structural Fund matters from the outset, as witnessed by the early decision to commission a consultant's report on how to maximise their involvement in this field (Jones Economics 1991). The eligibility of the Network has been the single most significant change in the composition and nature of the partnership since the introduction of programming in Western Scotland in 1985. The LECs are now the main vehicles for local economic development in Scotland, and, as explained above, at the time of the Scottish Office's 1991 consultation document on local government reorganisation, there was some debate as to whether any local development functions should be retained by the local authorities.

LECs attract an increasing share of ERDF resources in Scotland for environmental improvement projects and training measures as well as business support schemes. As is shown in chapter 6, LECs also play a greater role in the institutional structures through which the programmes are delivered. To this extent, the asset specificity of the resources brought to the programming relationship by the traditional partners (and in particular the local authorities) is reduced. The enhanced ability of the European Commission to turn to other qualified partners for local expertise, economic data, programme preparation and most importantly for the supply of eligible projects which the Commission can co-finance, reduces its dependence on traditional partners. The claim of local authorities to be the only actors which bring some form of 'democratic legitimacy' to the partnership, given that they are the only eligible bodies to be directly elected, is less convincing in light of the fact that political members of the councils are excluded from the programme's committee structures which can only be attended by non-elected officials.

The position of the LECs was further strengthened by the long-standing desire of DG XVI to re-direct ERDF expenditure away from infrastructure hardware to business software. While the Regional Council and other partners could prepare business support schemes (were these to be declared suitable by central government), the very *raison d'être* of the LECs was to assist private sector development schemes in local areas. The following section illustrates the trend over time towards a higher proportion of business support schemes in ERDF programming in Western Scotland.

5.5 The Shift in Strategic Programming Priorities: From 'Infrastructure Hardware' to 'Business Software'

While the following chapters consider the performance of Strathclyde IDO in terms of institutional outputs (chapter 6) and policy outputs (chapter 7), the remainder of this chapter examines the two contract preparation periods subsequent to the IDO: the 1993 Western Scotland Operational Programme and the post-1993 Plan. The aim of this section is to illustrate the growth over time in the percentage of the ERDF programme allocated to revenue-financed business software schemes and away from infrastructure hardware. It is argued that this shift in the ERDF policy 'periphery' indicates the increasing capacity of the European Commission to shape the overall priorities of the development programme. The increased role of the Scottish Enterprise Network, with its strategic objective of supporting business competitiveness, in the preparation of the post-1993 Plan is also significant. As shown in the following chapters, however, the continuing ability of the UK central government to use the flexibility built into the contract to re-direct expenditure away from software measures *after* the approval of the programme illustrates the continuation of bargaining throughout the process and hence the incomplete nature of the contract.

The desire of the European Commission to re-direct the actions of the ERDF away from the support of basic infrastructure towards internally generated regional growth, through SME support in particular, has been emphasised throughout the preceding analysis (see chapter 3 in particular). From the European Commission's perspective, strategies designed to attract inward investment carry the danger that company location may simply be displaced from elsewhere in the EC. The European Commission also maintained that basic infrastructure support was of little economic relevance in declining industrial regions: such infrastructure was usually already in place in Objective 2 regions of northern member states. Support for road construction in particular in Objective 2 areas was increasingly opposed by DG XVI (unless these were short access roads necessary to open up new industrial sites) as they were generally maintained to be of little value in economic development terms and should be financed by the member states in any case. The significance of reducing the number of roads supported in the UK was dramatic: in Strathclyde, the Regional Council attracted most of its ERDF support for such projects; more importantly, as the number of large road projects (in financial terms) is reduced, it becomes more difficult to implement the programme as an increased number of smaller projects is required to 'draw down' support. As shown in table 5.5, the UK's reluctance to shift the focus of programming away from such infrastructure was striking when compared with the other member states eligible for Objective 2 support.

Table 5.5: Percentage of Each Member State's Structural Fund Objective 2 Allocation by Expenditure Priority (1989-1991)

Priority	Be.	Dk.	FRG	Sp.	Fr.	It.	Lux.	Ne.	UK	All
Ongoing Operations (pre-reform)	36%	9%	9%	27%	24%	5%	53%	31%	45%	31%
Improving Business Competitiveness	53%	72%	52%	36%	43%	62%	47%	50%	19%	35%
Infrastructure for Economic Activity	7%	18%	39%	13%	26%	20%	–	4%	18%	19%
Tourism	3%	–	–	–	–	–	–	13%	9%	6%
Basic Infrastructure	2%	–	–	24%	6%	11%	–	–	9%	8%
Technical Assistance	–	1%	1%	–	1%	2%	–	2%	–	1%

Source: European Commission (1990) *Annual Report on the Implementation of the Reform of the Structural Funds* (Luxembourg: Office for Official Publications of the European Communities).

There are four key points to note about table 5.5. *Firstly*, and most importantly, the exceptionally low share of the UK's allocation devoted to 'improving business competitiveness' is striking. At 19% this figure is almost 50% less than the next member state (Spain). Denmark, at the other end of the scale, allocated almost 72% to such schemes.[26] The explanation for this comparatively low figure, referred to above, was repeated in several interviews with DG XVI officials. The low share allocated to business support (including research and development schemes), while paradoxical in light of the fact that UK domestic regional policy is exclusively focused on the private sector, is explained by the fact that such schemes are overwhelmingly financed through revenue expenditure and cannot be controlled as directly as capital expenditure under the UK public expenditure system. The UK central government consequently sought to keep a tight lid on the ERDF allocation to business development schemes, as had been evident in their earlier refusal to forward Article

[26] It should be noted that, despite the fact that the UK allocation to 'improving business competitiveness' is almost 50% less than the next lowest, the overall allocation to such expenditure across the Objective 2 regions of the EC is lower than the second lowest allocation. This reflects the fact that the UK received almost 40% of total Objective 2 resources, more than twice the allocation to any other member state.

15 applications under the old 1984 Regulation. A *second* point to note is that the 45% allocated to 'ongoing operations' in the UK was overwhelmingly devoted to infrastructure schemes. Pre-reform programmes were prepared under the old priorities: as shown in the previous section, over 80% of ERDF resources under the Strathclyde IDO were allocated to infrastructure schemes. A *third* point to note is the general lack of importance attached to tourism schemes across the Objective 2 regions of Europe: tourism development was included as a priority in the Scottish schemes primarily because it guaranteed the district councils a share of expenditure. *Finally*, the opposition of the UK government (although not alone in the EC) to 'technical assistance' (TA) is of relevance. Under the terms of the Regulations, up to 2% of a programme's resources could be used to finance seminars, studies, consultancy work, computer equipment or even staff costs in order to enhance the technical quality of programme management. In the UK, such assistance was long rejected. While the government blocked TA under Objective 2 on the grounds that it provided poor 'value for money', the fact that such assistance would be exclusively financed through local actors' revenue budgets was also of key significance.[27]

It should be emphasised again that these were *proposed* allocations to strategic priorities. *Actual* out-turn allocations were significantly different in the case of Strathclyde IDO. However, at this stage, the post-IDO contracts should be examined to illustrate the increased share of proposed ERDF allocations directed to revenue-financed business support and research and development schemes.

5.5.1 *The 1993 Western Scotland Operational Programme*

As explained above, the reformed Structural Fund Regulations, covering the period 1 January 1989 to 31 December 1993, came into effect a matter of days after the approval of the Strathclyde IDO. In line with the three-stage planning procedure, a *Regional and Social Conversion Plan* for the Objective 2 area of Western Scotland was officially submitted to the European Commission on 30 May 1989 (Scottish Office 1989b). Following a period of negotiation between the DTI and the European Commission, the latter published the *Community Support Frameworks* for the Objective 2 regions of the UK. The development priorities set out for the region of Western Scotland in the CSF simply reflected the eight development objectives and Action Programmes of the IDO, which had already been approved to cover the period 1 January 1988 to 31 December 1992. For the areas covered by the pre-existing IDO,

[27] The fact that technical assistance was available under Objectives 3 and 4 shows the contradiction in the government's 'value for money' criteria. Objectives 3 and 4 for vocational training are used in the UK to support overwhelmingly revenue expenditure, hence the importance of blocking TA under these Objectives was lessened from a UK government perspective.

the priorities therefore remained the same. For Ayr and Girvan, however, the new Regulations applied: road, rail and inland waterway schemes were only acceptable to the extent that they facilitated business development or tourism and that they made 'a direct contribution to creation and maintenance of employment and to economic development and productive investment', or were essential to the efficient movement of industrial, commercial or tourist traffic. Likewise, drainage and sewerage schemes were only acceptable if they were essential to business or tourism development (European Commission 1991b: 30). From 1989 then, the programme incorporated two distinct areas under which priorities and the eligibility criteria for projects differed.

As explained in chapter 4, it had been the intention of the European Commission to review the eligibility of Objective 2 regions after three years. Hence, the first CSF only lasted for the period 1989 to 1991. The intention was to create a new list of Objective 2 regions for the period 1992-1993, and to undertake a new round of programming. In the event, the Commission decided on 20 March 1991 to maintain the existing list of Objective 2 areas and continue the CSFs largely unchanged. The CSF for Western Scotland for the 1992-1993 period began as follows: 'while some revisions have been carried out to the Community Support Framework in the light of experience of the first phase of operations, there are no major changes to the policy objectives or broad priorities as set out in the original document' (European Commission 1992b: 1). For 1992 therefore, with regard to the areas covered by the IDO, the Commission and the UK authorities agreed to continue the eight Action Programmes of the original document as the priorities for action while Ayr and Girvan operated under the new priorities. However, between the completion of the IDO on 31 December 1992, and the introduction of the re-reformed Regulations on 1 January 1994, the original IDO area was subject to a one year Operational Programme, reflecting the priorities which had guided the 1989-1991 actions in the adjacent areas of Ayr and Girvan (see Appendix 3). In other words, the partnership already had experience of operating the new priorities through the case of Ayr and Girvan.

The six Priorities (or Action Programmes) set out for the 1993 Western Scotland Operational Programme were as follows:

Priority 1	*Improving facilities for the development of productive activities*: primarily the provision, upgrading, or refurbishment of high quality industrial sites and premises, workspaces and business centres.
Priority 2	*Improvements in road, rail and public transport facilities in order to facilitate business development and tourism*: primarily to provide or improve access to industrial sites, business premises and tourism attractions.

Priority 3	*Assistance for the development of small and medium-sized enterprises*: provision of business support to SMEs through help with business services, management advice, design and marketing, and the introduction of new technologies.
Priority 4	*Improving the image and attractiveness of the region*: land reclamation and treatment, landscaping, and environmental improvements.
Priority 5	*The development of tourism*: upgrading and modernisation of existing attractions, development of new attractions, provision of tourist advice and information centres, support of promotional activities.
Priority 6	*Support for research and development and vocational training*: provision of facilities aimed at extension of new facilities, promotion of innovation, and support for product and process development (Strathclyde Integrated Development Operation 1993a).

These were precisely the priorities hammered out in 1989 between the European Commission and the DTI for all of the Objective 2 areas of the UK, and applied uniformly for Eastern Scotland, North-East England, Ayr and Girvan under Western Scotland, and the other Objective 2 regions of the UK. Widespread myth among the UK Structural Fund partnerships suggests that these Priorities were simply thrashed out over a restaurant table in Brussels in a meeting between the UK lead civil servant on Structural Fund issues (an Assistant Secretary in the DTI) and the relevant Director from DG XVI. Whether or not this is accurate, and it has been confirmed in several interviews with both UK central government and European Commission officials, the most important aspect of this 'strategic framework' was the balance of importance that was subsequently given to each Priority in terms of the expenditure allocation it received.

In late April and May 1989, DG XVI had received eight Regional and Social Conversion Plans for UK Objective 2 areas. DG XVI had to meet a six month deadline, laid down in Article 10 of Regulation 4253/88, in responding with the Community Support Framework. Negotiations therefore continued between European Commission and UK government officials over the summer. Interview sources have confirmed that the government made an overbid of over 100% more than the estimated amounts available for the UK for the years 1989, 1990, and 1991. From a Commission perspective, the central aim of the negotiations with UK authorities therefore became to scale down the demands in order to match available resources. In other words, by making a bid for support well in excess of the resources available, the UK government precluded the possibility of any extensive discussion during the six month negotiation period of its failure to develop a strategic approach or provide quantified objectives and targets. Several Commission officials suggested in interviews that the Plans submitted for UK Objective 2 regions were all overly similar and had simply been edited for each region on a Whitehall word processor with little local input.

As expected, the European Commission sought to limit the resources allocated to infrastructure measures such as roads, and give a higher priority to direct assistance to firms. The entire strategy of the DTI (and the Scottish Office) in the negotiations was to limit the allocation of ERDF resources to revenue financed measures and to maximise the allocation to those financed through local actors' capital expenditure.[28] Priority 3 (assistance for the development of SMEs) was almost entirely financed through revenue expenditure, while the research and development component of Priority 6 and the promotional activities (such as advertising) undertaken under Priority 4 (tourism) were similarly financed. The Commission's pressure for increased resources to Priorities 3 and 6 was therefore fiercely resisted by UK central government which sought to maintain its long-held policy of non-additionality.

The House of Lords Select Committee on the European Communities found evidence of this conflict between UK central government and the European Commission over the balance of expenditure between infrastructure and software measures. The Commission was firmly of the belief that priority should be given to investment directed towards industrial development activities rather than infrastructure, while the Government stated repeatedly that capital expenditure on infrastructure provides greater 'value for money' than other forms of expenditure under the Structural Funds. As the Under Secretary heading the regional policy division in DTI told the Lords, 'the view of the United Kingdom Government which is based on "value for money" considerations is that in general capital expenditure on infrastructure is likely to prove of greater value for money than other forms of expenditure' (1992: 13). As shown in chapter 7, however, the UK civil servants' inability to pinpoint exactly what they meant by 'value for money' exasperated Commission officials who maintained that the UK government position was based on nothing more than an opposition to revenue expenditure projects.

The Scottish Office was at the forefront of the dispute with the European Commission over the 'matter of emphasis' given to revenue financed schemes. Scottish Office civil servants pointed out to the House of Lords Select Committee that the UK government puts 'a greater emphasis on infrastructure expenditure', while 'the Commission possibly put a rather greater emphasis on support for investment by small and medium sized enterprises, but it is a matter of balance' (House of Lords 1992: 35). This difference in opinion over the weight to be placed on strategic priorities provoked 'lengthy discussions' during the first round of CSF negotiations in 1989. As the

[28] Not least because the lead Department, the DTI would need to issue spending cover for revenue projects. The Department of Environment is responsible for issuing cover for capital projects in England.

Assistant Secretary in the Scottish Office with responsibility for ERDF actions in Scotland told the Select Committee:

> In the negotiations in 1989 of the plans that we submitted, which were eventually agreed as Community Support Frameworks, I have to say that there was a lot of dispute between the Commission on the one hand and the Government and Scottish Office together with, I think, nearly all its partners in running programmes as we all felt that infrastructure was very important in a peripheral region like Scotland... The Commission, however, was at that time pressing very hard its view that priority should be given to direct investment into industrial firms rather than to infrastructure. There was therefore a dispute, but at the end of the day, as is common in Community business, my Lord Chairman, we reached a compromise which I think met our objectives as far as possible on both sides, and we now go ahead within the general framework (1992: 35).

The negotiations which had been carried out between the European Commission and central government over these issues in 1989 shaped the Operational Programme prepared for the Western Scotland Objective 2 region for the transitional year of 1993. This was the first year in which the whole of the Western Scotland region was covered by the Priorities thrashed out in the 1989 negotiations. The total ERDF allocation by strategic Priority for 1993 is set out in Table 5.6.

Table 5.6: Western Scotland 1993 Operational Programme - ERDF Allocation by Priority

Spending Priority	Share of Total ERDF Expenditure (%)
1. Facilities for Productive Activities	28%
2. Road, Rail & Public Transport	20.5%
3. Business Development (SMEs)	10%
4. Image and Environment	14.5%
5. Tourism	23%
6. Research and Development, Vocational Training	4%

Source: Strathclyde IDO. (1993) *Western Scotland Operational Programme - 1993 - ERDF Guidance Pack* (Glasgow: Strathclyde IDO.).

Four points should be highlighted with regard to table 5.6. *Firstly*, the most important point to note about the 1993 Operational Programme is the 10% of ERDF resources allocated to Priority 3 (Business Development). While the earlier IDO had nominally allocated 16% to the similar Action Programme of 'Enterprise, Innovation and Investment', this was primarily reimbursement to the Scottish Office for its own 'Enterprise Initiative' awards. The 10% allocated to Priority 3 in 1993 was intended to support locally generated business support schemes. *Secondly*, the dramatic reduction in support for public transport schemes, from 37% of ERDF resources under the IDO to 20.5% in 1993, should be noted. The significance of this shift is softened by the increased allocation to 28% for 'Facilities for Productive Activities' from the mere 8% allocated to 'Industrial sites and Premises' under the IDO. Hence, although the European Commission was able to promote a shift away from basic infrastructure provision (such as roads) to business development supported by local authorities, Priority 1 guaranteed that a large proportion of expenditure was still allocated to capital-financed schemes. *Thirdly*, the importance attached to the various Priorities by the European Commission was evident in the grant rate it approved for each. The European Commission approval of the 1993 Operational Programme stipulated that the Commission would provide 50% support (the maximum possible in Objective 2 regions) for projects under Priorities 3 and 4. The rate of assistance fell to 45% for Priorities 5 and 6 and to 40% for Priority 1. The grant rate for public transport infrastructure schemes was a mere 25% (European Commission 1993a: 11). *Fourthly*, given the changes in the strategic priorities ushered in during the 1993 transitional year, the IDO Executive team (see chapter 6) was compelled to issue an *ERDF Guidance Pack* for partners, and to run a series of seminars to inform the local partners of the changes in project priorities, eligibility and the greater emphasis on the integration of Funds (Strathclyde Integrated Development Operation 1993b).[29]

In short, the increased allocation of resources to revenue-financed business support schemes under the 1993 Programme indicates the greater capacity the European Commission enjoyed after the 1989 Regulations to shape strategic programming priorities. The Plan prepared for the post-1993 period, drawn up under the re-reformed Regulations, shows that this trend towards business support schemes has continued. However, the significance of the new additionality agreements and the greater involvement of Scottish Enterprise and the LEC Network in this period should also be recognised.

5.5.2 *Programming with Transparency: the post-1993 Plan*

The *Western Scotland Regional Plan 1994-99* (Scottish Office/Strathclyde European Partnership 1994) is the most recent contractual document considered in this analysis. Although the Plan was drawn up to meet the requirements of the 1993 re-reformed Regulations, much of the detailed preparation of the document was undertaken by the partners before the Regulations were agreed, in the anticipation that there would be little significant change in the operation of the funds for the 1994-1999 period. The Plan was submitted to the European Commission in March 1994. The emphasis placed on software measures was greater under the 1994 Plan than under any previous programme for Western Scotland.

It should be emphasised that the 1994 Plan was the first to be prepared after the RECHAR dispute and was therefore the first to be drawn up with financial transparency and under the 'subtractionality' arrangements analysed in chapter 4. In other words, all ERDF grants (whether capital or revenue based expenditure) are now passed on to the partners undertaking the project. More importantly, although the

[29] ESF funding was available for projects under Priorities 3, 4, 5 and 6 in the 1993 Operational Programme, and not fenced off under a separate Action Programme as had been the case under the IDO. It is relevant to note that almost twice as much ESF than ERDF was available under Priority 3 (business development). This reflects the fact that ESF expenditure for training schemes is primarily revenue expenditure anyway and did not need to be capped under this Priority in the same way as the ERDF.

resources have been top-sliced 'ex-ante' from the partners domestic spending allocations, the award of ERDF grant now carries an automatic permission to spend. The importance of the revenue-capital distinction in ERDF terms, which long determined how the UK central government approached projects and programming, is now far less relevant. Central government no longer blocks revenue financed projects on the grounds of ensuring non-additionality. Pressure from the European Commission for business support schemes, assisted by the LECs whose strategic priorities are aligned with DG XVI in this regard, met little resistance from the Scottish Office in 1994.

The Plan for the post-1993 period was also the first to be drawn up involving the full regional partnership, which started preparing the document well in advance of the deadline for its submission to the European Commission. In effect, the 1993 Programme had been determined for the regional partnership during the wider negotiations between the Commission and central government in 1989. At a CSF Monitoring Committee meeting on 3 November 1992, the partners agreed that they would need to consider a wide range of issues ahead of determining a strategy for the post-1993 period. The Western Scotland partnership therefore agreed to set up a *Plan Team* to develop a draft plan (even though they did not know what the reformed Regulations would call for). The main task of the Plan Team was to set up a 'streamlined and representational structure to gather information relevant to the growing number of partners in an effective fashion'.[30] The Plan Team itself comprised eight officials from the wider group of around 140 partners. These Team members were drawn from the senior partners: the Scottish Office Industry Department; the Programme Executive; Strathclyde Regional Council; Glasgow District Council; the Head of Strategy Development for Scottish Enterprise; a Voluntary Sector representative; and an official from one of the LECs.

The Plan Team engaged in an exhaustive analysis of the Western Scotland regional economy, in consultation with the wider partnership. The Team prepared an overview of the key development issues facing the Western Scotland region and proposed strategic objectives for the new Regional Plan: Strathclyde Regional Council drew up a report on physical business infrastructure; Scottish Enterprise and the LECs drew up a report on non-physical business infrastructure; human resource development requirements were tackled by a representative of the voluntary sector; Glasgow District Council drew up a tourism strategy as well as a report on social and economic cohesion *within* the area. This latter reflects the sponsorship by Glasgow District Council of several of the 'Area Initiatives' within Glasgow's city boundaries. Papers on

[30] 'Western Scotland Objective 2 Regional Plan: Preparation of the Regional Plan including involvement of, and consultation with, the Partners', typescript.

all these issues were prepared and circulated early among the wider partnership early in 1993, with the agreement that all partners had the chance to comment in writing to the Plan Team before the end of March 1993. A series of workshops were also held in early April on several of the issue papers. While the European Commission desk-officer for the region was invited to attend these workshops, the invitation was turned down for practical reasons.

A further range of less contentious papers was prepared by the Programme Executive. These were not subject to the same degree of consultation and concerned the following issues: a socio-economic profile of the region; an assessment of the impact of the IDO and of the lessons learned; a chapter on the environment; a paper on management and evaluation; draft selection criteria for projects and a financial plan. While it had not been clear throughout the Plan preparation if the partners were preparing a plan or a full programme, as the new Regulations had not been agreed, a final document was prepared with the aid of a consultant to draw all the papers together.[31] The Plan submitted to the European Commission in March 1994 was therefore the first to have been prepared through a wide consultation of the partnership. The Plan itself emphasised the level of local involvement in its preparation:

> The Plan has been produced by a team drawn from the principal economic and social development organisations in Western Scotland. It has been developed and refined through numerous discussions, workshops and consultation seminars involving over 150 representatives of the agencies of the partnership. The breadth of involvement and commitment secured by this process has itself enhanced the capacity for partnership action in the region and will increase the effectiveness of the Plan's delivery (1994: preface).

Interview sources in Western Scotland confirm that the post-1993 Plan was in fact drawn up in a much more open and consultative manner than any of the earlier documents in the region. While the Scottish Office's superficially 'hands off' approach can partly be explained by the new additionality agreement and the fact that the resources to be allocated were top-sliced ex-ante by central government from the local actors' expenditure allocations, the role of the Programme Executive was also of some importance. The Executive had been in existence for five years by the time of the 1993 Plan preparation (and the Director himself had been in post for all that time). A degree of trust had been built up among the local partnership with regard to the Executive and this body's strong role in the Plan Team facilitated a wider consultation than might otherwise have been the case.

[31] This same consultant had worked on the original IDO submission in the late 1980s.

The Plan sets out four strategic priorities as follows: business environment; business development; tourism; and economic and social cohesion *within* the region (i.e. the targeting of blackspots of high deprivation). The allocation to these priorities is shown in table 5.7, which also indicates the trend in strategic priorities over the course of ERDF programming in Western Scotland.

Table 5.7: Structural Fund Expenditure by Priority in Western Scotland (1985-1994)

Priority	IDO 1988-1992	Op. Prog. 1993	Post-1994 Plan
Tourism	11%	13%	13%
Business Development *	9%	18%	33%
Business Environment **	80%	69%	39%
Eco. & Soc. Cohesion ***	–	–	15%

Source: European Policies Research Centre (1994) *Ex-Ante Appraisal of Objective 2 Regions: Western Scotland* (Glasgow: European Policies Research Centre).

* *Business Development* is used here to include expenditure on enterprise, innovation and investment, employment and training, research and development.

** *Business Environment* includes expenditure on environmental improvements, industrial sites, transport, communications, productive activities (workshops, and drainage, sewerage, and waste before 1993).

*** *Economic and Social Cohesion* indicates the new priority introduced for the post-1993 period and includes expenditure on business start-ups, employment and training, and environmental improvements in the most seriously disadvantaged areas of the region.

The most striking feature of table 5.7 is the 350% increase in the allocation of resources to business development between the 1988 programme and the 1994 Plan (which was drawn up without direct Commission involvement).[32] Moreover, the earlier NPCI had not included any such measures as Article 15 projects were explicitly blocked at that time. Similarly, expenditure under the business environment category (incorporating earlier expenditure under environmental improvements, industrial sites, transport and communications and almost exclusively capital financed expenditure) has witnessed a reduction of over 50%. The breakdown of funding between the strategic priorities proposed in the 1994 Plan represents a significant shift in emphasis relative to the breakdown under both the IDO and the 1993 Operational Programme.

[32] The apparent discrepancy between figures presented in Table 5.7 and those presented in Table 5.6 is simply due to the fact that the expenditure figures provided in Table 5.6 refer to the ERDF component only, while the figures in Table 5.7 include ESF expenditure.

The European Policies Research Centre offered the following explanation for the shift from hardware to software in its appraisal of the 1994 Plan:

> The strategy and priorities reflect a balance between the major plan partners, in particular between Strathclyde Regional Council and Scottish Enterprise. The major shift of the Strategy and financial allocation towards business development represents the greater influence of Scottish Enterprise [compared to the 1988 plan which was driven more by Strathclyde Regional Council] (European Policies Research Centre 1994: 36).

While the reduced asset specificity of the resources brought to the contractual relationship by Strathclyde Regional Council is undoubtedly of great significance, it has also been suggested above that other factors were at play. Notably, the earlier pressure of the European Commission to promote such a shift and the removal of central government's block on revenue expenditure after the RECHAR transparency agreement have both been emphasised. In short, the shift in strategic programming priorities from infrastructure hardware to business software is a striking example of the malleability of ERDF programmes at the point of delivery.

5.6 Reprise and Summary

This chapter has provided a detailed analysis of the evolution of ERDF programming in Western Scotland, and the role of local partners therein. A central focus has been the extent to which the European Commission is able to frame such regional development programmes to reflect its own objectives. It has been suggested that in the UK, there is a great deal of tension between central government and the European Commission over the programming of ERDF actions. As Redmond and Barrett point out, it seems that 'the relationship between Britain and Europe in this area often represents a rather uneasy marriage of convenience between two different, if not conflicting, intellectual traditions. The Commission's approach seems to owe much to French indicative planning experience whereas, of course, regional economic planning has never been firmly established in the UK' (Redmond and Barrett 1988: 31). As such, Mawson and Gibney's observation (quoted above) on UK policy towards the 'strategic approach' is worth repeating. The objective of central government in the UK is to 'secure the maximum ERDF entitlement with the minimum administrative difficulties' (1984: 53). This chapter has shown how the transaction costs of programming have in fact increased as central government can no longer treat the ERDF purely as a budgetary compensation mechanism.

The broader aim of this chapter (along with chapters 6 and 7) has been to test the applicability and utility of the model of policy implementation as incomplete contracting. To do so, five sets of questions derived from the model were set out at the beginning of this chapter. It is worth returning to those questions to illustrate that the model does indeed provide useful insights into the nature of policy implementation.

Firstly, who are the partners and what resources does each contribute to the exchange set up under the programming procedure? The Scottish Office Industry Department, Strathclyde Regional Council, DG XVI, and latterly the Scottish Enterprise Network were identified as the key partners. It was also suggested that central government and the local authorities were traditionally more concerned with attracting support for infrastructure projects, while DG XVI (supported recently by the Scottish Enterprise Network) has usually been more interested in industrial and business development measures. Although their strategic objectives may differ on close examination, all partners have increasingly devoted a large share of internal organisational resources to the requirements of programming. For example, the European Funds and Co-ordination Division within the Scottish Office Industry Department has grown in terms of staff numbers from 5 to over thirty in the last decade. The increasing resources are demanded by the nature of the exchange relationship.

The benefits to the European Commission of the contracting approach with central and sub-national actors are clear. At the most obvious level, the programme documents provide the Commission with much sought after information on the regional economy. In Western Scotland this was data which would not otherwise have been collected systematically in this fashion, let alone made available to the Commission. It has also been shown that the European Commission is unable to prepare ERDF programmes on its own. Not only does it lack the internal staff resources to do so, but the information required to prepare a coherent programme is widely dispersed at the regional level. Hence, a range of national and local actors are incorporated to provide the resources necessary to gather highly dispersed information on the regional economy. In fact, many local actors complain that the information requirements of the European Commission are excessive. One local government official grappling with the Commission's demands for information claimed ironically that 'Brussels wants to weigh the bricks' (Preston & Hogg 1990: 34). The provision of such information allows the European Commission a role in determining expenditure priorities, and a say in the most sensitive question of determining the expenditure allocation to action programmes. From a Commission perspective, the advance presented by this approach relative to the annual rubber-stamping of thousands of disparate projects was significant.

From the perspective of the regional actors, there were a number of perceived benefits from the exchange, despite the lack of true additionality. A Strathclyde Regional Council document lists some of the benefits as follows: an enhanced level of ERDF assistance (i.e. higher grant rate); ERDF grant assistance for small schemes which could not otherwise be supported outwith a programme framework; assistance for projects not eligible outwith a programme, such as environmental improvements; far greater certainty about levels of support; and, the decentralisation of decision-making on projects from Brussels to the local Co-ordinating Committee in the region. In addition, the requirement that the economic development programmes of the major organisations with a role in economic development in the region should be brought together into a single coherent set of proposals and regular monitoring of these against common objectives was perceived as another benefit: 'no other similar arrangements currently exist to bring together these organisations in the region. Co-ordination also brings a closer relationship with Brussels and hence the opportunity for new joint proposals in future' (Strathclyde Regional Council 1988: 9). Central government has facilitated this co-ordination in the case of the ERDF as it is dependent on local actors applying for support. Central government wishes to draw down resources and requires local actors to submit a steady supply of projects in order to allow this to happen. In short, a complex exchange relationship has been established as local economic information and projects for co-financing are exchanged for some predictability in financial flows and guidance on how to apply for support.

The second and third sets of questions are closely related to the first. The growth and evolution of the partnership over the last decade is explained by the increased geographical coverage of the programme, as well as a wider range of eligible activities and the emergence of new partners (in particular Scottish Enterprise and the LECs). From a European Commission perspective, this has reduced the asset specificity of the resources brought to the exchange by the long-standing partners (in particular the local authorities). In other words, DG XVI is now less dependent on local authorities for the provision of projects it can co-finance. Moreover, the strategic priorities of the LECs are more in line with the European Commission focus on business support.

The importance of involving and motivating all the relevant local actors in the preparation of the regional development contract has been stressed by the Convention of Scottish Local Authorities. They claim that 'if the planning process is efficient and effective, it should produce confidence among the partners, confidence which should extend to the provision of greater regional/local responsibility within the partnership mechanism' (COSLA 1991: 7). Undoubtedly this has increased the likelihood that competing objectives are introduced into the partnership. Analysis of the preparation of programmes has shown that partners expect 'a slice of the cake' if they are going to the expense of providing information and projects. Nevertheless, the common purpose of the partnership is also evident as a sense of trust seems to be emerging.

The duration of the exchange relationship has allowed shared values and an embryonic sense of trust to develop between the partners. This trust, which had not been facilitated by pre-existing domestic structures for regional planning or regional policy, is reflected in the agreement of the partnership to allow a 'Plan Team' to draw up the post-1993 Plan (in consultation with the whole partnership). The consultants appointed to appraise the post-1993 Plan found evidence of the sense of trust among the partnership. They pointed out that the Plan Team genuinely considered that the Plan 'reflects what the partnership wants to achieve and that the full partnership has been involved and is in agreement':

> There has been a broad, partnership-based approach in the preparation of the Plan and, among the Plan Team members, substantial consensus on the overall strategy. The wide range of organisations involved and their different capabilities affected the extent to which they were able/willing to be involved in the consultation process (European Policies Research Centre 1994: 107).

In this way, an attempt had been made 'to address the identified need for greater ownership by the Partnership of the Strategy and its implementation by undertaking a wider consultation process' (ibid.: 107). However, the model of incomplete contracting also emphasises the fact that all bargaining is not condensed into the contract preparation phase. The incomplete nature of the contract, a consequence of the uncertainty surrounding regional economic performance and the complexity of planning a policy response, necessitates flexibility and adaptability in implementation structures.

The fourth set of questions posed at the start of this chapter concerned the extent to which the uncertainty and complexity surrounding the programming process rendered the contract incomplete. The unavoidably bounded rationality of the key actors means that contractual agreements leave a lot of gaps to be filled in. As quoted in this chapter, the Programme Director in Western Scotland has explained that around 50% of projects change their financial profile during the course of implementation due to changes in wider economic circumstances, changes in tendering documents or delays in projects. The programmes therefore allow for the ability to shift resources between sub-programmes and a complex set of committee structures has been set up to facilitate this flexibility. The European Commission participates in these structures in order to monitor the enforcement of the contract according to its original spirit. The following chapter considers the precise nature of the governance structures the European Commission has been able to fashion in the region concerned in order to pursue its contractual objectives.

The final set of questions considered the extent to which the European Commission had succeeded over time in promoting its own priorities for development as the exchange relationship has matured. The gradual development of a more 'strategic' approach has, in general, been a feature of programming in Western Scotland. The Commission's own priority within such an approach, to increase the proportion of resources allocated to business development and decrease the proportion allocated to basic infrastructure in Objective 2 regions more generally, was clearly set out in the *Fourth Periodic Report* on the regions of the Community (European Commission 1991e: 56). The Commission's ability to achieve this shift in Western Scotland has reduced the Secretary of State for Scotland's ability to shift around the resources within his budget according to one senior civil servant. The Scottish Office is now obliged to top-slice resources from the expenditure headings of local actors in order to reallocate the spending approval as projects are approved. According to this civil servant, trying to control the Structural Fund programming process is 'like steering a super tanker: you cannot stop it, you can put it in some directions but you cannot turn it around'.

The increased capacity of the European Commission to shape programming priorities is most evident in the shift in emphasis over time from infrastructure hardware to business software measures. The respective economic merits of infrastructure and business development projects for the eligible areas of Scotland was not considered in this analysis. It was more important simply to highlight this difference in the 'policy periphery' between the European Commission and UK central government. The public expenditure reasons behind this reluctance of UK central government to support schemes for SMEs, although disguised in economic terms, were also highlighted. As Commissioner Millan himself told the House of Lords Select Committee, 'the Government has been very reluctant to allow us [the European Commission] to co-finance local authority schemes for small and medium-sized enterprises'; moreover, it is not the case that the UK Government does not want to assist small firms, but that the limits put on the Commission 'are basically to do with the relationship between government and local authorities' (House of Lords 1992: 98). The European Commission's increased capacity over time to influence the allocation of resources to strategic priorities is therefore witnessed by the 350% rise in support for business development schemes in Western Scotland since the late 1980s. To this extent at least, it appears that UK civil servants at central and local level have been required to adapt to the 'requirements of the Brussels mind'. It also appears that the Under-Secretary of State for Industry and Consumer Affairs is wrong when he suggests that 'the government will decide how the money is spent, and that is that'. However, the model of incomplete contracting emphasises that agreement of the programme is not the end of the process. Our analysis must also look at ex-post project selection and the extent to which the flexibility built into the contract is used to alter its final shape. The case study now turns to the structures through which this flexibility is ensured.

Chapter 6. Monitoring Arrangements: Enforcing the Contract

> On-the-spot observation reveals considerable differences between partnership in programming and partnership in the management of implementation. The two forms of partnership often bring together different partners, each with its own motivation, expertise and working methods. The results are of higher quality when partners are involved in both functions (European Commission 1992d: 20).

> People have felt that once you have agreed the Community support framework and the programme, that was the end of the story and the Commission should not have an interest in anything that happened after that. Well, it is not as simple as that, we have to maintain an interest ... we have to be involved and sometimes the Member States do not appreciate that very much. They would rather like to be left to get on with things under their own steam and without us being involved, but I do not think that this is in accordance with either the spirit and principles or the practice of the regulations (Commissioner Millan in evidence to the House of Lords Select Committee on the European Communities 1992: 96).

6.1 Introduction

This chapter provides an analysis of the institutional structures established in Western Scotland to ensure the enforcement of ERDF funded regional development contracts. As the above quotation of Commissioner Millan clearly indicates, the European Commission's involvement in the programming process does not end with the agreement of the programme. Rather, an *ongoing* contractual relationship is established. The European Commission has rejected the 'elegant simplicity' of the direct financial transfers between member states sought by the UK Secretary of State for Trade and Industry (see chapter 4). On the contrary, the Commission has sought to move away from the purely compensatory function of the ERDF. DG XVI progressively managed to promote the principles of programming and partnership over the course of the 1980s in pursuit of an effective instrument for economic development. This chapter seeks to uncover the nature of the governance structures which have been established in accordance with the principle of partnership at the regional level in order to facilitate programming. Specifically, the focus is on the extent to which the European Commission has been able to shape these structures.

Mackintosh suggests that 'partnership' has become one of the buzz words of our times in the field of public policy generally, and local economic development in particular. However, the term tends to disguise the multiplicity of objectives that are pursued behind the screen of seemingly co-ordinated action:

> There is of course real ambiguity and conflict within partnership schemes themselves. Such schemes are rarely well defined one-off deals between partners with clearly defined goals, but rather sites of continuing political and economic renegotiation (1992: 210-211).

As emphasised in chapter 2, Parri's model of 'territorial political exchange' (1989; 1990) provides a useful conceptualisation of the potential complexity of policy-making involving a variety of actors at different territorial levels. In the case of ERDF programmes, the European Commission clearly encourages lower-level actors to influence the content of the contract, in exchange for both relevant information and consent to the terms of the contract. The necessity of a constant supply of eligible projects from local actors, as well as periodic repetitions of the process, also mean that the exchange relationship established is not simply a one-off interaction. A complex institutional structure has therefore evolved to govern this relationship. The committee system which has developed opens up regular opportunities for local actors and the European Commission to raise issues (such as respect for the additionality principle) which central government would prefer not to have to address in such a forum.

As Laffan has suggested, the European Commission's goals of increased partnership with central government on the one hand, and with local and regional authorities on the other, may simply not be politically realistic (1989: 54). It was open to question at the time of the reform of the Structural Funds whether the European Commission would have the political capacity and power to ensure that its views would prevail in the new fora opened up by the partnership principle. Indeed, in an internal communication circulated early in 1989, the Commission expressed its disappointment at the lack of respect for the principle, pointing out that 'the Member States pay lip-service to the principle of partnership, but in practice the majority of them resist the decentralisation which partnership implies and are suspicious of the links which develop in the process of partnership between the Commission and authorities or organisations other than central governments'.[1] How this particular tension was resolved in the case of Western Scotland is examined herein.

In line with the model of policy implementation as incomplete contracting, the focus of the analysis presented in this chapter is again on the *exchange* between the European Commission and domestic actors in Western Scotland. The following inter-linked questions, reflecting and developing upon the set of questions around which chapter 5 was structured, are considered in this chapter:

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[1] 'Structural Funds: Principal Questions Raised by the Revision of the 1988 Regulations', Communication from Mr Millan, Mr Flynn and Mr Steichen, in agreement with Mr Paleokrassas, January 1993, typescript, p.7.

1. *To what extent is each partner involved in the structures which have been established to monitor the enforcement of the contract?* The partnership itself expressed the view that 'there must be maximum involvement of partners in the committees and greater ownership by the partnership of the strategy and its implementation' (Scottish Office/Strathclyde European Partnership 1994: 60). However, as shown in chapter 5, the number of partners (defined simply as all bodies eligible to receive Structural Funds assistance on the grounds that if they are able to apply for grant in support of projects, they can contribute in some way to the development and management of the programme) has increased from around six at the time of the NPCI to over 140 at present. As the number of partners has increased, has it been possible to involve every project sponsor directly in the implementation structure?

2. *Linked to the first set of questions above, to what extent are changes in the contract, and changes in the partnership itself, reflected in the evolution of the institutional structures set up under the programming process in Western Scotland?* As the Plan for the post-1994 period stated, 'the partnership operates in a complex, ever-changing and expanding area and therefore should be continually reviewing its strategy and operating practices to ensure an improved responsiveness to local circumstances' (Scottish Office/Strathclyde European Partnership 1994: 59).

3. *Has the duration of the exchange relationship increased the sense of trust among the partnership?* Has the length of time for which they have been working together on ERDF programmes facilitated the emergence of shared beliefs about the nature of the agreement? For example, does every partner demand the right to participate in every committee, or has a representational system of committee membership evolved?

4. *How is the incomplete nature of the contract and the uncertainty surrounding the planning process built into the institutional structures?* More specifically, how do the institutional structures incorporate flexibility and adaptability to unfolding circumstances? It is suggested below that the way in which the partnership in Western Scotland has agreed to respond to unforeseen contingencies can be conceptualised as a process of *relational contracting*. Rather than agreeing on the detailed nature of individual projects, the partners have settled for an agreement framing their relationship in this field. That is, they have agreed on broad objectives and on criteria to be used in decision-making when unforeseen contingencies arise. In simple terms,

they have agreed to cross certain bridges when they come to them, and they have agreed in general terms how the bridges should be crossed at that time.

5. *Has a professional community of experts in the field of programming developed in Western Scotland, and if so, how has this expertise been built into the institutional structure?* It is suggested below that the emergence of the Programme Executive as a 'special purpose institution' has facilitated co-operation between the partners and reduced many of the costs of contracting. However, as central government tries to establish control over the Executive, the trust the latter enjoys among the wider partnership will be gradually eroded.

These five sets of questions are addressed throughout the remainder of this chapter, which is organised in five sections. **Section 6.2** examines the earliest proposed institutional arrangements for ERDF implementation in Western Scotland, those contained in the 1984 IDO Preparatory Study. While the authors of that study were perhaps optimistic with regard to the role they anticipated for local actors in the implementation structure, many of the principles identified in the study have nevertheless been reflected in the subsequent evolution of institutional arrangements. The Strathclyde IDO's subsequent structure is analysed in **Section 6.3** before **Section 6.4** examines the most recent changes to the institutional structures at the regional level. **Section 6.5** then analyses the role of the 'independent' Programme Executive over the entire period, charged with the task of managing the implementation of the contract. The evolution of this 'third party' (which does not sponsor projects itself and exists solely to ensure the effective management of the programme) is examined in the light of the changing nature of the contract itself. A key strength of the model of policy implementation as incomplete contracting is the way in which it highlights the extent to which the existence of the Executive has facilitated a greater sense of trust and enhanced the level of expertise brought to the implementation of the programme. **Section 6.6** provides a summary of the findings of this chapter, emphasising the broad applicability of the model to the case of ERDF implementation in Western Scotland. It is to the earliest proposals for institutional arrangements that the chapter now turns.

6.2 Early proposals: The Institutional Arrangements Proposed by the IDO Preparatory Study

As part of the Preparatory Study for an IDO conducted in 1984, a technical seminar was called to make proposals for the management and administration of the IDO. The seminar involved economists and policy analysts from Strathclyde Regional

Council, Glasgow District Council, the Scottish Development Agency, the Scottish Office and the Manpower Services Commission, with input from academics from Glasgow and Strathclyde Universities. The agencies participating in the seminar emphasised six points that needed to be built into the IDO implementation structure. Although they were not incorporated in institutional arrangements at that time, these points are worth considering in turn, as they have influenced many of the institutional developments in ERDF programming over the last decade in Western Scotland.

Firstly, the Study stated that 'the machinery must not function purely at an official level, but must include a *political decision making dimension*. Important political decisions need to be made with regard to the thrust of the IDO, the types of project to be supported, and the availability of local resources to support the EC contribution [emphasis added]' (Roger Tym & Partners 1984: 52). Despite this call, partnership in Western Scotland has never involved an overtly political membership. As suggested in chapter 5, this absence of elected officials weakens the local authorities' claim to be the only actors to bring 'democratic legitimacy' to the partnership.

Secondly, it was suggested that 'it is important that the administrative co-ordination *combines knowledge of European priorities and procedures, with knowledge of local needs and opportunities* in Glasgow [emphasis added]' (ibid.: 52). In itself, this can simply be seen as an early statement of the objectives of the partnership principle, incorporating the co-ordination of a multiplicity of actors with flexibility to local conditions.

Thirdly, a need was identified 'to supplement the project and policy development capability of the IDO with the *expertise and ideas of parties concerned with the future of Glasgow but <u>outside</u> government*. These are primarily the private sector, trade unions and academic and university expertise':

> The seminar concerning the IDO study served a useful function in focusing attention on economic development in Glasgow at an experts' level. There may be some advantage in developing this forum in future years. It would help produce new ideas for the IDO; it could be extended to business and trade union representatives and could, possibly, form a direct contact point between local and EC experts on regional development. If this route is taken it would be important that funding is made available to pay for meetings, and more importantly, to prepare expert papers and conduct any necessary research [emphasis added] (ibid.: 52-53).

Chapter 5 explained how the 'technical assistance' (TA) called for to provide sufficient resources to enhance the management of programmes was generally rejected by central government in the UK as poor 'value for money'. As shown below, however, following the later 'transparency' agreement on additionality and the lifting of the block on revenue financing, such assistance did actually become available to local actors in Western Scotland. Similarly, recent developments in Western Scotland have seen the increased use of advisory groups and external policy advice.

Fourthly, the need to incorporate flexibility was reiterated when it was suggested that 'the IDO machinery should include *a monitoring procedure* able to make a general assessment of progress, and also charged with making known to the EC major problems that are emerging in the Programme [emphasis added]' (ibid.: 53). The way in which such flexibility was incorporated in subsequent institutional arrangements is examined below.

Fifthly, 'the IDO machinery should be able *to report Glasgow's needs and opportunities*, and allow them to be given priority in the various programmes of regional and national bodies concerned with the city [emphasis added]' (ibid.: 53). This was perceived as a key benefit for local actors involved in the exchange relationship with the European Commission.

Finally, 'the administrative procedure should be *simple* ... It should also be capable of subsequent extension if the boundaries are widened from Glasgow to the whole conurbation; and it should draw in the various Directorates in Brussels involved in financing the IDO [emphasis added]' (ibid.: 53). As shown below, however, this simplicity has not been easy to achieve in practice as the complexity of the contract itself has increased.

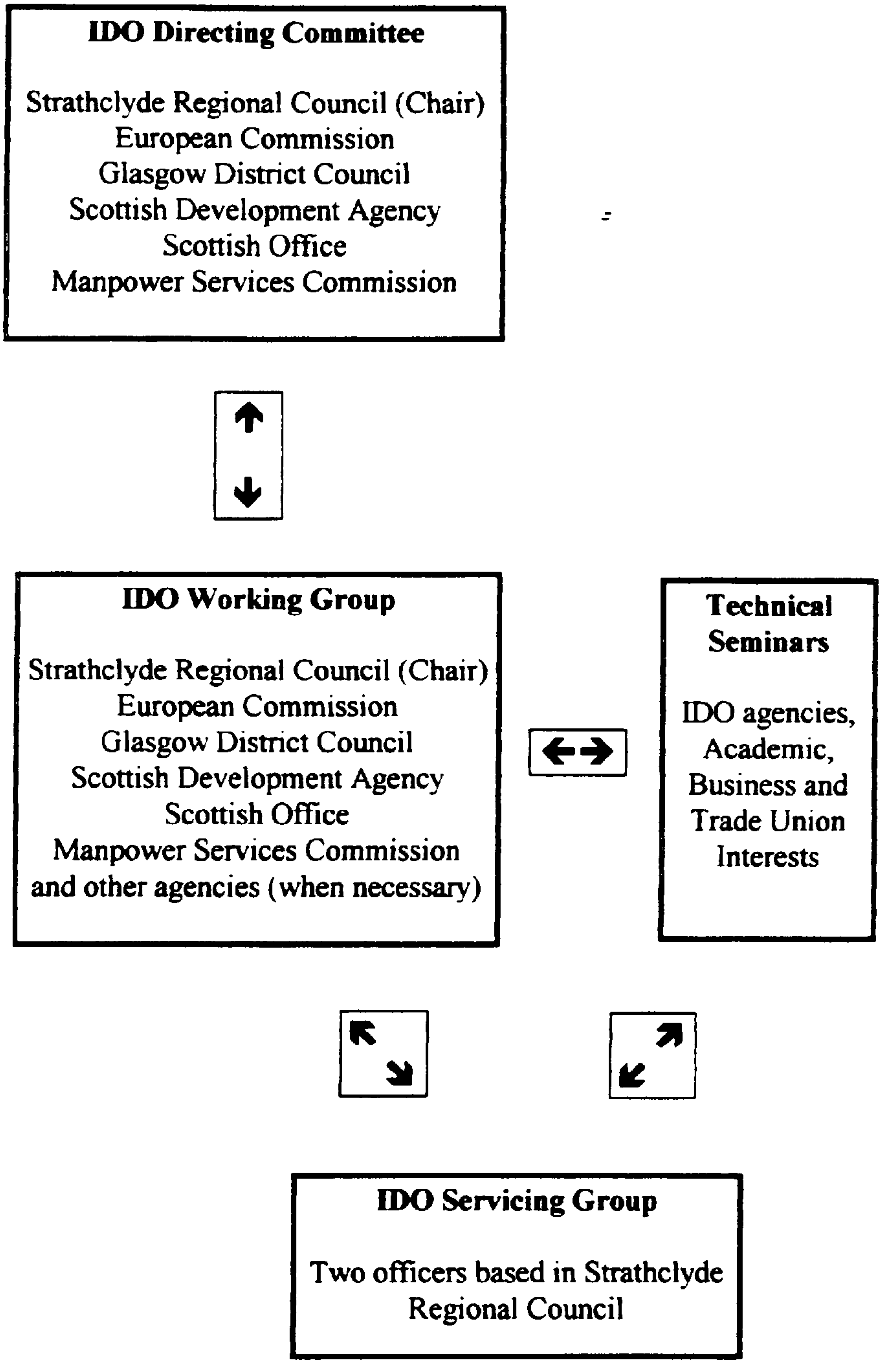
The IDO Preparatory Study proposed that an administrative structure capable of addressing these six points would need to comprise two-tiers: 'a higher level political forum', and 'a working group responsible for day-to-day management' (ibid.: 53). Furthermore, it would fall to the working group to establish contacts with the wider business, trade union and academic community through regular technical seminars. While such a two-tier structure was ultimately adopted in 1989, the role originally foreseen for Strathclyde Regional Council grossly overestimated the willingness of the Scottish Office to allow a decentralisation of management functions. The Study suggested that 'Strathclyde Regional Council should be appointed as the lead agency for the IDO, although the major role that it would be required to play is one of co-ordination' (ibid.: 53). The Scottish Office's Industry Department for Scotland (IDS) would be represented in the higher level political forum and the working group, but on a par with Glasgow District Council, the Scottish Development Agency and the Manpower Services Commission. As 'junior' partners, British Rail, the South of Scotland Electricity Board, British Telecom, the Scottish Gas Board, and the British Airports Authority should merely be 'kept informed of the progress of the Operation and given papers etc., and should have the right to be present at the Working Group when relevant' (ibid.: 53-54).

The Study also raised the possibility of locating an office of the European Commission in Glasgow, but rejected this because of the cost and the fact that it would be at arm's length from the Commission in Brussels. Instead, the Study requested that the European Commission should appoint a representative to both the directing and working groups who would attend all meetings: 'this would allow the Commission to keep in direct touch with the progress of the Operation; it would maximise the prospect of "vertical integration" of the IDO in that British local and central government representatives would be sitting alongside the EC; and it would allow close working relationships to develop between local and Commission IDO staff' (ibid.: 54). The DG XVI official subsequently appointed with responsibility for Western Scotland has now retained that responsibility for almost a decade.

Figure 6.1. summarises the management structure proposed for Strathclyde IDO under the 1984 Preparatory Study. This consisted of three bodies: an IDO Directing Committee; an IDO Working Group; and an IDO Servicing Group. The proposals for each should be considered in turn.

IDO Directing Committee: The Study proposed that membership of the Directing Committee would comprise the Leader or Deputy Leader of Strathclyde Regional Council and Glasgow District Council, a Director-level appointment from the SDA, and senior officials from the European Commission, the Scottish Office and the Manpower Services Commission. The Leader of Strathclyde Regional Council, generally a high-profile political figure in Western Scotland, would chair the meetings which would be held twice a year. The functions of the Committee would be largely strategic: 'to set general guidelines for the future development of the IDO; to draw together budgets; to monitor progress of IDO projects; to sort out conflicts of interest between parties involved in joint working; and to make reports to the EC of major emerging trends that need to be included in the programme, and major difficulties that are arising from the priorities of the EEC or interpretation of its guidelines' (ibid.: 54-55). The lower-level tasks of day-to-day implementation would be performed by a Working Group of officials.

Figure 6.1: Management Structure Proposed for Strathclyde IDO under the 1984 Preparatory Study



Source: Roger Tym & Partners (1984) *Integrated Development Operation for Strathclyde: Final Report Preparatory Study* (Glasgow: Roger Tym & Partners).

IDO Working Group: The Study suggested that the IDO Working Group would 'provide the essential continuity for the project'. The membership of the group would be drawn from the same bodies as the Directing Committee, but at the non-elected officer level. The 'junior' partners need only participate in this group when necessary. Moreover, it was emphasised that 'active participation by the European Commission would be of special importance to the activities of the Working Group' (ibid.: 55). In effect, the Working Group would be a continuation of the Group that had managed the IDO study, and would continue to be chaired by the Regional Council. The Group would be closely involved in the day-to-day implementation of the IDO:

> The functions of the group would be to package and co-ordinate bids for EC funds; to oversee the co-ordinated working of different agencies on projects; to update the IDO; to promote schemes and widen an understanding of EEC procedures and instruments among agencies potentially able to benefit from them in Glasgow; and to monitor progress (ibid.: 55).

Again, a call was made to devote resources to the effective management of the Programme: 'for the Working Group to be successful it should have a small budget to finance preparation of technical papers and undertake research assignments. This budget would also be used for commissioning independent monitoring studies of particular elements of the IDO programme' (ibid.: 55). Such 'technical assistance' did not become available until 1993.

IDO Servicing Group: The proposals for a servicing group are extremely interesting, as they planted the seed of the idea for the Programme Executive that was ultimately established as a 'special purpose institution' in 1989. At the time of the Preparatory Study, it was suggested that 'the nature of the IDO is not such that major new staffing arrangements would be either welcomed or justified':

> We consider, however, that a considerable amount of work is involved in the tasks laid out for the Working Group... To an extent this will be carried out by the technical staff of the relevant organisations as an extension of their normal staff duties. In addition, however, there would be advantage in having a small core staff for the operation (possibly of two persons) able to deal with day-to-day matters of progressing bids and projects, answering enquiries, promoting the IDO, and developing background work on the projects. This group could develop to a position where it became the essential experts [sic] on all EC matters for bodies in Glasgow, a role in itself which would increase the integrating role of the IDO (ibid.: 55-56).

Again, while the proposals highlighted the main administrative requirements that would arise as a result of agreement on the first ERDF programme in Western Scotland, the Study over-estimated central government's willingness to allow a lead role for the Regional Council when it suggested that the servicing group would 'sensibly be located in the Chief Executive's Department of Strathclyde Regional Council', and that 'it should be funded jointly by the Regional Council and EC' (ibid.: 55-56). Moreover, when it was ultimately set up in 1989, an attempt was made to ensure that some 'distance' was visible between Strathclyde Regional Council and the Executive in order to dispel any notion that the IDO was the responsible solely to the Regional Council. The aim was thereby to enhance the sense of trust among the partnership.

The failure of the 1984 IDO proposal and the subsequent approval of an NPCI for Glasgow have been analysed in chapter 5. The institutional arrangements set in place under the NPCI, the first ERDF programme in Western Scotland, were considerably simpler than the IDO Preparatory Study's recommendations. Point 2 of the Addendum to the Commission Decision awarding an NPCI for the City of Glasgow established an *NPCI Co-ordinating Committee*. This met twice annually during the course of the NPCI and constituted between 12 and 14 officials: representatives of the Industry Department for Scotland, Strathclyde Regional Council, City of Glasgow District Council, the Scottish Development Agency, the South of Scotland Electricity Board, the Scottish Gas Board, British Railways, the Strathclyde Passenger Transport Executive and a representative of the European Commission nominated by the Directorate-General for Regional Policy. The meetings were chaired by a Scottish Office official, and the secretariat was similarly provided by the Industry Department for Scotland. No lower-level working group was established at that time.

Point 3 of the Addendum to the Decision stated that 'the Co-ordinating Committee shall co-ordinate the choice of measure under the programme and the administrative and financial arrangements for the implementation of the programme. It shall also monitor, evaluate and report on the implementation of the programme and may propose and adopt adaptations to it in the light of periodic assessments of the progress made and of the social and economic situation' (European Commission 1988). Despite these requirements, the Committee structure for the NPCI was largely an irrelevance in terms of the final shape of the contract. The NPCI comprised a simple list of capital financed projects which had been planned long in advance. There was very little flexibility to change the NPCI and the lack of additionality presented a serious problem in drawing down resources, as will be shown in chapter 7. As it was not a high priority programme for any of the partners, no serious attempt was made to address the institutional requirements of the NPCI. The partners had very few resources invested in the programming process at that time. Nevertheless, the NPCI represents the start of a learning process for both the European Commission and the domestic actors. Moreover, as shown in the previous chapter, the internal resources (most obviously in terms of staff) devoted by each partner to the programming process increased sharply in the late 1980s. The analysis now turns to the more complex structure set up under the IDO when it was eventually approved in December 1988.

6.3 The Strathclyde IDO Committee Structure

The most obvious lesson learned by local partners during the course of the NPCI was to scale down their expectations with regard to ERDF programmes. Not only was the process tightly controlled by central government through the public expenditure system to ensure a policy of non-additionality, but central government's reluctance to allow a decentralisation of management structures also became apparent. This reluctance was subsequently overcome, to an extent, when the true costs of running a programme became apparent to the Scottish Office. At the time of the 1987 application for an IDO, however, the institutional arrangements proposed were much more modest than those outlined in the original 1984 Study. The 1987 document emphasised only the minimum arrangements required to ensure implementation:

> Implementation of the projects and programmes included in the I[ntegrated] O[peration] will rest with the local organisations responsible. But special management arrangements are required for the IO to perform the following functions:
>
> - promotion of the IO to encourage local organisations to develop projects which would support the IO objectives, and extend the range of measures in which the EEC participates;
> - progress monitoring and periodic review of the IO;
> - operation of financial procedures and periodic re-scheduling of projects covered by the NPCI and extensions, if required, to agencies not covered in the initial approval;
> - drawing up supplementary programme submissions;
> - advice and assistance in the preparation of applications for EC assistance which support the aims of the IO (Industry Department for Scotland/Strathclyde Regional Council 1987: 86).

The proposed administrative arrangements reflected the 1984 proposals in that they would be based on four components: a Steering Group; a Co-ordinating Committee; Periodic Seminars; and servicing of the Steering Committee. The higher-level Steering Group would include the following members: a Scottish Office official, who would chair both the Group and the Co-ordinating Committee; two Strathclyde Regional Council officials; European Commission representatives; and one official each from the SDA, the Manpower Services Commission, and a single District Council (nominated by the Convention of Scottish Local Authorities). In other words, the Steering Group would not involve all the partners but only senior partners representing the wider partnership. The Co-ordinating Committee, by contrast, would comprise officer-level representatives from each organisation participating in the programme. Servicing of the Steering Committee and the Co-ordinating Committee, and arrangements for seminars would be undertaken jointly by IDS and Strathclyde Regional Council. Functions covered in this way would include: administrative arrangements for the Steering Group and Co-ordinating Committee; administrative arrangements for seminars; publicity for the programme; progress monitoring and preparation of review proposals; operation of programme procedures; recommendations to Steering Group on associated and extra projects; advice and assistance in preparation of applications (ibid.: 87). As Figure 6.2 shows, this basic structure was similar to that which emerged when the IDO proposal was approved.

The European Commission Decision of 21 December 1988 approving the Strathclyde IDO contained a section on the administration and monitoring of the programme. Paragraph 6 of the Decision stated that 'the United Kingdom authorities will establish co-ordination and partnership arrangements at all levels for the purpose of implementing the IDO. In that connection, a Co-ordinating Committee will be set up at local level comprising representatives of the national, regional, and local agencies responsible for administering the financial measures and of representatives of the Commission. Its mandate will be to monitor and evaluate the implementation of the programme' (European Commission 1988: 8). While the Decision also stipulated that the Co-ordinating Committee (which should meet at least twice a year) would adopt its own rules of procedure, it set out the key tasks of the Committee:

- to ensure co-ordination between the choice of measures to be implemented under the IDO and the administrative and financial arrangements necessary for that purpose;
- to ensure that all the measures financed are compatible with the objectives and strategy of the IDO and comply with the rules and guidelines for the relevant structural instruments;
- to ensure co-ordination between the measures financed under the IDO and other operations which contribute directly to its objectives;
- to co-ordinate the publicity activities regarding implementation of the IDO;
- to monitor and evaluate the progress made in implementing the IDO;

- to report annually ... to the Commission on the progress made in implementing the IDO, the final report to include an assessment of the combined impact, expressed in macroeconomic as well as microeconomic terms, of the various measures implemented within the framework of the IDO in relation to the aims pursued;
- to recommend to the Commission modifications to the IDO where it considers this necessary in view of the socio-economic situation and progress made in implementing the IDO (European Commission 1988: 9).

Many of these tasks were similarly supposed to have been performed by the earlier NPCI Co-ordinating Committee, but the final point on potential 'modifications to the IDO' was a new development. This was both a recognition of the fact that it was extremely difficult to reduce the uncertainty surrounding the planning process, and a peg on which to hang subsequent changes to the plan. As such, it testifies to the incomplete nature of the contractual agreement, the need for flexibility, and the potential for bargaining throughout the process. It also supports Commissioner Millan's claim that there is therefore a case for the European Commission to be involved at all stages. Consequently, the EC participated in the two lower-level working groups (one each for ERDF and ESF) set up in Western Scotland to follow the course of programme implementation and make recommendations to the IDO Co-ordinating Committee on changes in the weight attached to each strategic priority.

The first meeting of the Strathclyde IDO Co-ordinating Committee took place on 19 May 1989 in Glasgow. It was attended by three IDS officials (one of whom chaired the meeting), one from the Department of the Environment, one from DG XVI, one from DG V, two from Strathclyde Regional Council and one each from the Training Agency, Dumfries and Galloway Regional Council, the SDA and ScotRail. One official from the Irvine Development Corporation represented the New Town Development Corporations and three District Council officials (one each from Glasgow, Motherwell and Inverclyde) represented the District Councils. In total, the first Co-ordinating Committee was attended by 16 officials, all non-elected. The first point on the agenda was the Chair's confirmation that the post of 'Programme Director' would be established within a Programme Executive with effect from 12 June 1989. The establishment of such an Executive (servicing group) was required by the European Commission in the 1988 approval of the IDO. The official who was appointed to this post was nominally on secondment from Strathclyde Regional Council's Chief Executive's Office. As is emphasised in Section 6.5 below, the fact that this same official still holds the post of Programme Director six years after the post was created has allowed an element of continuity and the accumulation of Structural Funds expertise within the widely-respected Programme Executive.

The first meeting of the Co-ordinating Committee also agreed the broad implementation structure for the IDO when three papers on the respective structures and roles of the Co-ordinating Committee, ERDF and ESF Working Groups, and the Programme Executive were approved. As considerably more time was spent agreeing the broad procedures and 'rules of the game' framing the exchange relationship than on detailed negotiation of project-level agreements, this lends some weight to the conceptualisation of the process as one of relational contracting. It was agreed that the Co-ordinating Committee would take an active role in the forward planning of measures to be funded under the IDO and in setting priorities for the funding of projects in relation to the IDO strategy. In short, the Co-ordinating Committee was responsible for the overall direction and policy of the IDO. To assist in this task, the Programme Director would inform the Committee fully of the way the Programme was developing and of the types of project likely to come forward to the Working Groups for consideration. Responsibility for the crucial task of project selection would rest mainly with the Working Groups, although some larger projects would be notified to the Co-ordinating Committee with appropriate recommendations. In the event, only projects of over £2 million (over £7 million for the Transport and Communications Action Programme under which projects were generally larger), or of particular strategic interest were to be referred to the Co-ordinating Committee. Any decision to vary the Working Group's recommendation would be justified by the Co-ordinating Committee. It was also agreed in principle that attendance at Working Group meetings should not be confined solely to potential applicants; in particular, it was deemed desirable to bring more 'neutral interests' into discussions. Finally, it was agreed to rotate the venue of meetings, ostensibly to give all partners an opportunity to show the Committee different aspects of the programme area, but also to create trust and avoid the impression that any one partner owned the programme.

The first meeting of the ERDF Working Group took place on 25 July 1989, shortly after the meeting of the Co-ordinating Committee. Unlike the Co-ordinating Committee, however, the ERDF Working Group did not operate on a representational basis. *All partners with a project application on the agenda attended the meeting.* The first meeting of the group therefore comprised 35 people: two IDS officials; the Programme Director; one DG XVI official; three from Strathclyde Regional Council; and one each from Dumfries and Galloway Regional Council; the Central Scotland Water Development Board; ScotRail; the South of Scotland Electricity Board; the British Waterways Board; and, The Wise Group (representing the voluntary sector). Each New Town Development Corporation sent an official, as did 16 of the 18 district councils. As the number of partners increased over the course of the IDO (through geographical extension of the programme area and the emergence of new actors), the size of the ERDF Working Group expanded. While the ESF Working Group meeting operated on a 'representational basis' whereby one official spoke for the interests of a large number of organisations, the ERDF Group did not enjoy the same level of trust. As the Pieda evaluation of the IDO discovered, at one point the number of people attending the ERDF Working Group reached 75, making it extremely 'unwieldy' as a decision-making body (1993: 16). The problems caused by such large numbers were accentuated by the European Commission's insistence that decisions should be taken without votes, through the 'consensus' of the partnership.

It appears that participants were essentially risk-averse since, as Brunskill has emphasised, the involvement of all project sponsors in the ERDF Working Group meant that it was in no-one's interest to question any partner's proposals (1992: 15). The ability of the Working Group to select those projects which best addressed the objectives and met the targets of the IDO, irrespective of the identity of the project sponsor, was thereby impaired. The fact that the first meeting considered 110 ERDF project applications across the seven ERDF Action Programmes, but only rejected four can be seen as evidence of the reluctance of partners to criticise each other's applications. Rather, each organisation was present primarily to ensure that its applications were approved. Similarly, the level of discussion that could be held on 110 separate projects in the course of one meeting was limited. DG XVI consequently pressed for more detailed information on each project in future, and it was agreed that the Programme Director should collaborate with the European Commission to design new application forms which provided evidence to justify projects in economic development terms.

6.3.1 *European Commission Guidance to the Partnership on the Role of Monitoring Committees*

As emphasised in chapter 5, the Strathclyde IDO was approved only days before the new Structural Fund Regulations came into force. The new Regulations, with strengthened provisions for partnership, forced the European Commission to prepare some guidance on the role of Monitoring Committees (as they were known under the new Regulations). In March 1990, DG XVI issued a 'Guidance Note' on Monitoring Committees for Objective 2 Community Support Frameworks, prior to a meeting of all the UK partnerships in Brussels on 3 April 1990. The Note reminded authorities that the tasks of the Monitoring Committees had been set out in the CSF implementation provisions, but provided further guidance on their establishment and operation. With regards to the *scope* of the Committees, it was suggested that a single Monitoring Committee should be set up for each CSF. With regards to their *composition*, the Note suggested that the member state and Commission must designate their representatives to the Monitoring Committee within 60 days of notification to the Member State of the Commission Decision. A two-type membership was also proposed: permanent members of the Committee, representing local, regional, national and other bodies contributing to the CSF; and, non-permanent expert members.

The Note also provided guidance on *internal rules of procedure for the Committees*, which was of direct relevance to Strathclyde IDO. While the implementation provisions for the CSFs stated that the Monitoring Committees should establish their own rules of procedure, including any appropriate organisational arrangements, the Commission set out what it expected to see in the rules. It proposed that the following points should figure in the internal rules of procedure of all committees:

- Decisions should be taken on the basis of a consensus between the permanent and, if present, non-permanent members in the Committee, and should not be put to a vote. This applies equally to decisions of the Committee on modifications of the CSF or the forms of assistance which fall within its capacity.
- The Chairman should be assisted by a Secretariat consisting of officials from the Member State concerned.[2]

Both these proposals were designed to consolidate the partnership approach, to avoid open divisions and to strengthen the sense of trust between the actors.

Below the level of the CSF Monitoring Committees, the Note also set out guidelines on the administrative arrangements for *Operational Programme Monitoring Committees* in Objective 2 Areas. This two-tier structure reflected the structure already established in the Strathclyde IDO area, with a higher-level Co-ordinating Committee and lower-level ERDF and ESF Working Groups. The Note suggested that distinct Operational Programme Monitoring Committees should be established to maximise the flexibility of the programme. Their task should be 'to follow regularly and oversee the execution of the programme, to propose and, where appropriate, to adopt the necessary modifications of the programme in line with the rules set out in the Community Support Framework'.[3] No later than three months after the adoption of an Operational Programme by the Commission, the member state should nominate and indicate to the Commission the Chairman and permanent members of the Monitoring Committee for the Programme, comprising the local,

[2] Directorate-General for Regional Policies, Commission of the European Communities, 'Guidance Note: Monitoring Committees for Objective 2 Community Support Frameworks', March 1990, typescript, p.2.

[3] See footnote 2, 'Guidance Note', p.6.

regional, national and other bodies contributing to the programme. Again the lower-level Committee would adopt its own rules and procedures, but decisions must still be taken by consensus.

Even though the Strathclyde IDO was approved before the new Structural Fund Regulations entered into effect, the Guidance Note prepared by the European Commission on the internal rules of procedure for CSF and Operational Programme Monitoring Committees was of considerable importance in Western Scotland. As explained in chapter 5, a Regional and Social Conversion Plan still had to be submitted for the Western Scotland Objective 2 area (including Ayr and Girvan), and the area was the subject of a Community Support Framework. In addition, parts of the Western Scotland programme area were eligible under Community Initiatives drawn up under the reformed Regulations. This created a highly complex implementation structure under which lines of responsibility were not always clear. By September 1991, including ESF and Community Initiatives, the Western Scotland partnership comprised a network of numerous groups and committees. These included the following: the Western Scotland CSF Monitoring Committee/Strathclyde IDO Co-ordinating Committee, which usually met as one committee since it comprised the same people and covered the same area; the ERDF Working Group (comparable to an Operational Programme Monitoring Committee); the ESF Working Group; the Western Scotland RECHAR Programme Monitoring Committee; the Western Scotland RECHAR Working Group; the Western Scotland RENAVAL Programme Monitoring Committee; The Western Scotland RENAVAL Working Group; and a Tourism Strategy Sub-Group. The head of the European Funds and Co-ordination Division in the Scottish Office Industry Department chaired the Western Scotland CSF Monitoring Committee/Strathclyde IDO Co-ordinating Committee meetings, to which all the lower-level groups and committees were responsible.[4] The head of the Programme Management Unit within the EFC Division chaired the Working Groups, while the IDO Executive Programme Director chaired the Tourism Strategy Sub-Group.[5]

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[4] It should be noted that the Western Scotland programme area was relatively straightforward in terms of its committee structure compared to the Objective 2 region of Eastern Scotland. While the Western Scotland programme was largely located within the boundaries of one large Regional Council, the Eastern Scotland programme involved four regional councils: Central, Fife, Lothian, and Tayside. The inability of the partners there to agree a common programme led to the establishment of four geographically distinct Operational Programmes within the CSF Structure, each with its own expenditure allocation, its own Programme Monitoring Committee and Working Groups. By late 1991, the Scottish Office therefore chaired a total of around 17 committees related to the implementation of Structural Fund programmes (including Objective 5b and Community Initiative programmes).

[5] The Programme Executive (including the Higher Executive Officer who worked half-time for the Programme Management Unit in the EFC Division of the Scottish Office) provided the secretariat for all these meetings and thus stood at the centre of the network of committees and groups.

Notwithstanding the apparent complexity of this implementation structure, one of the key tasks for which it was designed was to enhance the flexibility of the programme and its responsiveness to local conditions. The main burden of responsibility in this task fell to the Working Groups. The specific tasks set out in the European Commission's Guidance Note issued to the UK partnerships on the role of the Operational Programme Monitoring Committees in the day-to-day implementation of the Programme were directly relevant to the Strathclyde ERDF Working Group. The main tasks were set out as follows:

1. to ensure that the actions assisted by the Community are implemented in accordance with:
   - the objectives, the strategy and the financial and physical targets set out in the programme;
   - the priorities agreed in the Community support framework;
   - the regulations and guidelines governing the Community Structural Funds;
   - the conditions and provisions annexed to the Commission decision approving the programme;
   - the stated Community policies.[6]
2. to consider individual projects put forward for Community co-financing by local, regional, national or other bodies contributing to the programme, and to select projects in accordance with the priorities and selection criteria established in the programme;
3. to propose financial, physical and performance indicators;
4. to monitor and evaluate the progress made in implementing the programme and to give an opinion on the annual progress reports to be submitted to the Commission;
5. to propose any measures necessary to correct delays in the implementation of measures revealed by the monitoring;
6. to modify in agreement with the Commission's representatives(s) the financial tables by switching not more than 15% of one sub-programme to another over the whole period of the programme, or by switching 20% from one annual instalment to another, provided that the total amounts of each of the Funds are not affected. The Commission and the Member States shall be informed accordingly.
   Any modification will be subject to approval by the Community Support Framework Monitoring Committee insofar as it involves consequent modification of the indicative financial allocation of the Community support framework.
   For modifications above these thresholds, the monitoring committee for the operational programme must refer to the monitoring committee of the Community support framework;

[6] An annex on 'Observing Community Policies' explained EC competition policy rules, public procurement provisions, guidance on investments in sensitive or ailing industries, and requirements regarding the protection of the environment.

7. to ensure and co-ordinate the promotion and the publicity of the operational programme and of the Community contribution;
8. to give an opinion on proposals for technical assistance for implementation, monitoring or evaluation of the programme;
9. to keep the monitoring committee of the Community support framework informed on the implementation of the programme, in particular as concerns co-ordination with other measures in the area.[7]

Points 5 and 6 above are particularly relevant to this analysis. Despite the exhaustive process of programme preparation analysed in chapter 5, it was recognised that the planning exercise could not produce an effective contract pre-programmed in all respects. Recalling Majone and Wildavsky, policies cannot 'spring fully armed from the forehead of an omniscient policymaker ... something has to be left to chance' (1979: 189). While an attempt had been made to control indirectly the effects of the discretion enjoyed by local actors in the post-programming phase (by involving the actors in the preparation of the plan itself), the likelihood of changing economic circumstances and expenditure slippage dictated that flexibility was required. However, the European Commission sought to place limits on this flexibility by stipulating that only 15% of the expenditure originally proposed for any sub-programme could be shifted into another sub-programme during the life of the programme. Moreover, the Commission would be a member of the Committees deciding any such re-routing of expenditure and would therefore participate in the bargaining which was a feature of the whole implementation process, and not simply of the preparation of the contract.

The first meeting of the Western Scotland Community Support Framework Monitoring Committee was held on 26 September 1990 in Glasgow. The composition of the Committee broadly reflected that of the IDO Co-ordinating Committee, but included a greater number of central government officials.[8] The terms of reference adopted for the Committee reiterated its role in providing broad strategic guidance. It was agreed that the final decision on expenditure variations between sub-programmes compared to the initial estimates included in the indicative financial plan would rest with the CSF Committee. More significant changes would be referred to the Commission for adoption in agreement with the member state. Again, the concept of relational contracting is of some use here. Rather than attempting the impossible task

[7] Directorate-General for Regional Policies, Commission of the European Communities, 'Guidance Note: Monitoring Committees for Objective 2 Community Support Frameworks', March 1990, typescript, pp. 6-7.
[8] Following European Commission pressure on the issue, some consideration was given to the inclusion of the social partners, but IDS maintained that they could not be regarded as 'competent authorities' for the purposes of the Committee as they did not spend Structural Fund resources. The Scottish Office nevertheless emphasised that their door was 'always open' if either the Scottish Trade Unions Congress or the Scottish CBI wished to raise informally any issues related to the Funds.

of pre-programming all projects in advance, the partnership agreed on broad targets and then negotiated over who had the right to alter those targets.

This was the committee structure governing the implementation of the Strathclyde IDO/Western Scotland CSF at April 1992, as summarised in Figure 6.2. The Scottish Office Industry Department was firmly established in the lead role. The chairperson, a senior Scottish Office civil servant, had an effective veto over committee membership, convened committee meetings and drew up the agenda for meetings (this latter with the assistance of the Programme Executive). Nevertheless, the involvement of European Commission officials in these committees was well established and generally accepted. From the European Commission perspective, this was a radical departure from the earlier project-by-project appraisal system whereby officials in Brussels rubber-stamped large numbers of projects (although the NPCI committee system had provided some experience of regional partnerships and familiarised Commission officials with local actors). Responsibility for specific regions and regular visits to those regions changed the role of DG XVI desk-officers. DG XVI therefore prepared guidance for its own officials on the Commission's role at the regional level. The main points of this guidance should be highlighted briefly to illustrate the Commission's own interpretation of the nature of the committees and the tasks of the desk officers.

6.3.2 *European Commission Internal Guidance on the Role of Desk-Officers*

The first point to note is that the text of the 1989 Regulations makes no reference, either directly or indirectly, to the notion of the desk-officer (*rapporteur*). Nevertheless, within the European Commission each Operational Programme is the responsibility of a desk-officer, who is expected to take part directly at the regional level in the framework of partnership. Each desk-officer therefore fulfils two tasks: he or she has to become familiar with the socio-economic profile of the relevant region, while at the same time ensuring that partners at the regional level respect other Community policies (with regard to the environment for example). This first task is of great importance if the desk-officer is to fulfil his or her role as a negotiator. At a minimum, knowledge of the regional economy's strengths and weaknesses, an understanding of the legal and administrative structure of the member state, and of public expenditure processes are necessary. Such knowledge is a prerequisite for the desk-officer's role in monitoring the preparation and execution of the development contract at the regional level. This monitoring involves not only ensuring that the terms of the contract are observed, but also modifying the programme in line with the contingencies which emerge during the implementation process [... *réorienter d'autre* *part l'action à partir des nécessités apparues en cours d'exécution*].[9] Again, the incomplete nature of the contract is apparent through the emphasis on the provisions for uncertainty.

The guidance for desk-officers also stressed that the regional-level monitoring committee is not simply 'an accompanying committee': 'its role is rather that of a steering committee (*comité de direction*), that means it is a management body to prepare and take decisions'. Such decision-making could not involve votes, since 'in view of the tasks pursued by the Community structural policies and in the spirit of the partnership principle decisions of the monitoring committee should preferably be taken by consensus'. Nevertheless, on issues concerning 'the eligibility and conformity of operations with the Regulations governing Community structural policies, on questions of the overall coherence of the CSF and/or a form of assistance with the stated priorities and in areas where stated Community policies could be affected the Commission has a non-negotiable right of veto'.[10] This last right of the European Commission is largely a negative one, vetoing projects the desk officer considers ineligible or unsuitable, rather than the proactive ability to shape individual project applications.

In summary, the years from early 1989 to late 1992 witnessed the development of a complex network of committee structures involving the European Commission in the implementation of the Strathclyde IDO/Western Scotland CSF in line with the principle of partnership. According to Brunskill, however, this partnership may have been 'more apparent than real', as several partners felt that discussions took place largely between the Scottish Office and the European Commission with little regard to the wider partnership (1992: i). Nevertheless, all partners participated in the ERDF Working Group, the level at which project decisions were taken. 'Consensus' decision-making in this forum was facilitated in the early days by the fact that money was essentially 'chasing projects' and no hard decisions had to be made. By 1992, however, partner status had been extended to a range of new bodies, notably the Scottish Enterprise and LEC Network, and resulted in some very large committees with cumbersome procedures and extensive circulation of papers. The shift to a new Operational Programme in 1993, with its focus on smaller scale projects rather than large transport schemes, also required an overhaul of procedures. The 1993 changes to the committee structure should be analysed before turning to the role of the Programme Executive over the period 1989-1994.

[9] *Guide a l'usage des rapporteurs, document interne DG XVI.*
[10] See footnote 9, *Guide*, pp. 1, 5.

Figure 6.2: Management Structure of Western Scotland CSF/Strathclyde IDO April 1992

Western Scotland CSF/ Strathclyde IDO Co-ordinating Committee

Scottish Office Industry Department (Chair)
Dept. of Employment (ESF Unit)
Department of Trade and Industry
European Commission (DG XVI & DG V)
Strathclyde Regional Council
Dumfries and Galloway Regional Council
3 District Councils
Scottish Enterprise & LECs
Irvine New Town Development Corporation
Scottish Business in the Community

IDO Programme Executive

5 Full-Time Staff

ERDF Working Group

Scottish Office Industry Dept. (Chair)
European Commission (DG XVI)
Strathclyde Regional Council
Dumfries and Galloway Regional Council
18 District Councils
Scottish Enterprise
5 Local Enterprise Companies
3 New Town Development Corporations
Scottish Business in the Community
ScotRail
British Waterways Board
Clyde Port Authority
Central Scotland Water Dev. Board
Civil Aviation Authority
Voluntary Sector Bodies
Local Economic Development Bodies

ESF Working Group

Scottish Office Industry Dept. (Chair)
Dept. of Employment (ESF Unit)
European Commission (DG V)
Strathclyde Regional Council
Dumfries and Galloway Regional Council
Scottish Enterprise
1 LEC representative
2 Enterprise Trust representatives
1 rep. of Higher Education Institutions
1 rep. of Voluntary & Training Orgns.
1 rep. of Local Economic Initiatives

Source: Pieda plc. (1993) *Strathclyde Integrated Development Operation: Interim Evaluation* (Edinburgh: Pieda plc.).

6.4 The 1993 Committee Re-organisation

The Strathclyde IDO officially came to an end on 31 December 1992. An Operational Programme for 1993, under the Western Scotland CSF, was approved by the European Commission to provide some continuity of funding in the eligible region until the new round of programming officially began on 1 January 1994. As examined in chapter 5, the 1993 Operational Programme involved a number of changes from the experience of the IDO. Most notably, support for large-scale infrastructure projects was cut back. Moreover, the 1993 programme was the first to be implemented after the 'transparency' agreement between the UK government and the European Commission following the RECHAR dispute. The approval of supplementary spending credits for all projects (whether capital or revenue financed), made possible by the ex-ante top-slicing of the partners' expenditure allocations, seemed set to increase the competition for funds. The Operational Programme itself highlighted a number of key issues that had to be addressed within the regional implementation structure:

- the growing number of individual project applications that require to be appraised, accorded priority, considered and approved efficiently;
- the anticipated growth in the number of eligible partners in 1993;
- the need to develop clear selection and ranking criteria for assessing project applications under each of the new priorities;
- the greater competition for funds which more flexible eligibility criteria and the new financial arrangements are likely to lead to in 1993;
- the need for more emphasis on monitoring and evaluation; and
- the scope for integrating the decision-making on ERDF and ESF project applications (Strathclyde Integrated Development Operation 1993a: 39).

The document therefore proposed that the structure should be amended for the implementation of the 1993 Operational Programme to take account of the changes that will occur in 1993. Two key questions had to be addressed. The first was how to streamline committee procedures. The second revolved around the fact that the 1993 Programme involved a shift to smaller scale business development, research and development, or tourism related schemes as opposed to large scale infrastructure: this would generate a larger number of smaller projects which would be much harder to assess, monitor and evaluate. A common solution to both these questions, proposed by both the Scottish Office and the Programme Executive, was the greater use of small, 'quasi-independent' advisory groups to prioritise projects. The prioritisation of projects at an advisory group level would free committees to focus on strategic guidance and monitoring. In order to keep committees small and manageable, the representational approach would be adopted: every partner need not participate directly in the committees. To facilitate this approach, the advisory groups themselves would be provider-led: that is, the group for each spending Priority would comprise the partners with the major interest in that Priority. As one Scottish Office interviewee suggested, the aim was to streamline by creating 'a series of interlocking networks' allowing partners to present their views and guarantee that their voice is heard on issues of interest to that partner. It should be emphasised at the outset, however, that the European Commission does not participate in the advisory groups.

Five advisory groups were established in 1993 with the aim of developing detailed strategies for each Programme Priority, and to undertake detailed appraisal and ranking of project applications. The five groups reflected the Priorities of the 1993 Programme and operated under the following headings: *Tourism*; *Business Development*; *Vocational Training Facilities*, which considered both ESF project applications for training schemes, and ERDF applications for vocational training facilities; *Research and Development*; and, the *Physical Infrastructure Advisory Group*, which considered applications for environmental improvements, roads, industrial sites and premises, and public transport schemes. The first three listed above had existed prior to 1993, the Tourism Group having been set up in 1990.

Each group was chaired by a representative of the Programme Executive and comprised between seven and nine representatives of the partnership, and 'where appropriate', independent external experts. The European Commission had sought unsuccessfully to delete the reference to 'where appropriate' when the advisory groups were established. As the Programme Director suggested, however, even the region's universities are now eligible for support, so that it had become increasingly difficult to find 'independent' experts. In effect, the Programme Director proposed the membership of each group, after discussion with the partnership, but the final list of members was approved by the Scottish Office. Membership of each group was intended to reflect interest and expertise in the particular topic of concern, and specialists could therefore be drawn from the wider partnership, and need not be members of the Programme Monitoring Committee. In the event, all five advisory groups involved the providers of project applications under the relevant heading. For example, the Tourism Advisory Group was chaired by the Programme Executive and comprised nine members drawn from those partners who submit the majority of projects under the tourism heading. All the advisory groups were similarly staffed with representatives of those undertaking the relevant projects. Of course, there is an obvious technocratic reason for this: the partners most qualified to appraise the quality of a tourism project are those involved in developing the tourism sector. However, it should be emphasised that the creation of a layer of advisory groups, in which the European Commission simply does not have the resources to participate, takes the main responsibility for advising on project prioritisation outside of the fora in which the Commission officers have an active role.

The partnership agreed in 1993 that a three-tier implementation structure should be introduced, comprising the CSF Monitoring Committee, the Operational Programme Monitoring Committee as well as the new advisory groups. The CSF membership remained largely unchanged, comprising senior partners on a representational basis as had been the case in previous years. The Operational Programme Monitoring Committee, which in effect merged the old ERDF and ESF Working Groups, would have been too large to function effectively had every partner taken part. It was recognised that the partners varied in terms of their size, the scope of their economic development functions, and the centrality of European funding to the partner's strategic objectives. Table 6.1 lists the membership of the Operational Programme Monitoring Committee as agreed by the partnership for 1993. The membership of the committee therefore comprised less than 30 officials and sought to recognise different constituencies of interest, and the contribution different partners made to economic development generally in Western Scotland. The new Committee also sought to maintain continuity with IDO arrangements, draw on existing experience, reflect a geographic spread of representatives through the region, and take account of the availability and seniority of representatives.

The 1993 Operational Programme Monitoring Committee, as a 'new' committee in Western Scotland, was expected to fulfil the following tasks:

- to consider and approve ERDF applications;
- to consider ESF applications and make recommendations to the Department of Employment.
- to ensure projects are compatible with the objectives of the Programme and comply with the relevant EC Directives and Regulations;
- to monitor financial progress of the Programme and to consider recommendations to the CSF committee on the virement of funds between priorities;
- to agree detailed strategies, selection procedures and criteria for each priority;
- to monitor project outcomes against targets;
- to promote integration and co-ordination of projects and programmes where appropriate;
- to promote the programme and to ensure adequate publicity of the Structural Funds;

- to ensure the wind-up of Strathclyde IDO and deal with continuing issues.[11]

While in the past projects above a fixed expenditure threshold had to be considered by the higher-level IDO Co-ordinating Committee/CSF Monitoring Committee, the 1993 Operational Programme Monitoring Committee could consider and approve all projects. However, it became increasingly difficult for the Programme Monitoring Committee (and the European Commission as a member of that committee) to question the recommendations of the 'expert' advisory groups.

Table 6.1: Western Scotland -1993- Operational Programme Monitoring Committee

Partner	Representation	Number of Partners Represented
Scottish Office Industry Department	Chair	
Programme Executive	Secretariat	
European Commission (DGs XVI & V)	2 representatives	
Scottish Office Industry Department	1 representative	
Department of Employment	1 representative	
Scottish Enterprise	1 representative	
Strathclyde Regional Council	1 representative	
Dumfries & Galloway Regional Council	1 representative	
Local Enterprise Companies	2 representatives	5
District Councils	5 representatives	19
Higher Education Institutions	1 representative	4
Further Education Colleges	2 representatives	20
New Town Development Corporations	1 representative	3
Voluntary Sector/Charitable Trusts	3 representatives	approx. 20
Local Economic Initiatives/Enterprise Trusts	3 representatives	approx. 20
Other national and regional public sector organisations (ScotRail, Scottish Tourist Board, Scottish Natural Heritage etc.)	2 representatives	approx. 10

Source: Strathclyde Integrated Development Operation (1993) *Western Scotland Operational Programme - Programme Monitoring Committee, Paper 1: Report on the Role and Membership of the Committee Structure for Managing the 1993 Operational Programme* (Glasgow: Strathclyde Integrated Development Operation Programme Executive).

[11] Strathclyde Integrated Development Operation, Western Scotland Operational Programme - Programme Monitoring Committee, 'Report on the Role and Membership of the Committee Structure for Managing the 1993 Operational Programme', March 1993, typescript, p.2.

In summary, it is obvious that is has not been possible to involve each partner in every committee or group set up to manage the implementation of the European funded development programmes in Western Scotland as the size of the partnership has increased. Changes in the nature of the contract, as well as changes in the partnership itself, have been reflected in the evolution of these institutional structures. A representational approach to membership now exists in both the higher-level committee for strategic guidance, and in the lower-level Programme Monitoring Committee. Superficially, this may be interpreted as evidence of an increased sense of trust among the partners as every partner does not demand the right to participate in every committee. However, when the composition of the new advisory groups is taken into account, it becomes apparent that the main partners are still represented at the point at which project prioritisation takes place for the Priorities in which they have a specific interest. Moreover, few partners would have the resources to participate in all the advisory groups and committees as these have increased in number. Nevertheless, some attempt has been made to incorporate a higher level of expertise in the project prioritisation exercise, even if this now excludes the direct participation of the European Commission.

A further question of relevance is the extent to which the continuing evolution of the partnership structures has been understood by the partners themselves. The European Policies Research Centre found that 'in responding to the partnership survey undertaken in 1994, 47% of respondents replied that they felt unable to comment on committee structure or the dissemination of information, due to a lack of information and knowledge about the processes' (1994: 108). The significance of this problem appears to have increased with the introduction of a representative approach for the new Programme Monitoring Committee: 'it was not surprising that the 39% who indicated satisfaction with the information dissemination and committee structure directly correlated to committee membership. There is a marked distinction between those partners who are very well informed and involved, and those who seem much less aware of the procedures and processes' (ibid.: 108). The EPRC evaluation concluded that although information flows have been relatively good hitherto, the growing number of partners increases the need for an efficient dissemination system: 'partners must be clearly aware of the key points of the strategy and the opportunities for their participation in the programme' (ibid.: 115). The role of the Programme Executive in this regard is of central importance to the effective functioning of the implementation structure. As the only actor to participate in all the committees and advisory groups, and with the sole responsibility of ensuring that the programme is efficiently managed, the Programme Executive stands at the centre of the network of committees which constitute the partnership in Western Scotland. It is to the Executive that the analysis now turns.

6.5 The 'Independent' Programme Executive

As suggested above, the original IDO Preparatory Study had proposed the creation of an 'IDO Servicing Group' based in the offices of Strathclyde Regional Council. This idea was not pursued during the years of the Glasgow NPCI, when the secretariat for the programme was largely provided by the Industry Department for Scotland. As the size and complexity of the regional development contract increased with the subsequent approval of the Strathclyde IDO, the running costs incurred by the Scottish Office in terms of staff resources appeared set to rise. Moreover, given the size of the IDO, the Commission required that a full-time executive to manage the programme was established (Brunskill 1992: 14). This request was approved by the Scottish Office, and since 1989 most of the preparation and secretarial work for the Western Scotland programme (drawing up agendas, screening projects, issuing papers and minutes for example) has been undertaken by the Programme Executive (PE). Between 1989 and 1994, the Strathclyde IDO PE was the only secretariat located outwith central government for an ERDF programme in the UK. Although provisions for co-ordination between the Scottish Office and the PE have been built into the institutional arrangements from the earliest days (through the Higher Executive Officer who works part-time for both),[12] the PE has been able to build its own positive reputation for effective programme management, not only among the partnership in Western Scotland, but throughout the UK regional partnerships and in the European Commission. This section analyses the development of the PE between 1989 and 1994 to assess the extent to which it has enabled a core set of officials to build up the skills and expertise necessary to facilitate implementation of the regional development contract. It considers the level of trust that the PE has been able to create among the partnership, but examines whether the recent trend towards greater supervision of the Executive by central government endangers this enhanced sense of trust.

The Strathclyde IDO Programme Executive has become well-known in Western Scotland. It is doubtful at best whether the European flags and publicity displaying the IDO logo erected at the sites of ERDF funded projects have made much impact on the wider public in the region. However, among the rather more focused group of economic development actors there, the PE is clearly identifiable and is now seen by potential project applicants as the first 'port of call' for European funding.

[12] The Programme Executive was also obliged to consult the Department of Employment on all ESF matters.

Brunskill found a general satisfaction among the regional partners with their relationship to the Programme Executive, pointing out that the body enhanced comprehension of the IDO and was perceived as 'close' to the projects:

> Another desirable feature is the 'quasi' independence of the Executive with their first priority given to the operation of the IDO rather than say to a government department or a large local authority. In legal terms the IDO is answerable to the S[cottish] O[ffice] and the Commission. However, in practice there does appear to be a 'working gap' in accountability, although working decisions are usually discussed with S[trathclyde] R[egional] C[ouncil] and the SO ... While the Executive is primarily an administrative body, it is clear that their role has expanded further than this. Closeness to projects, an overall view of the IDO development has meant that members of the Executive were clearly aware of emerging problems and were working with the Committees and selective partners to address these issues. This process enabled practical implementation problems to be linked with policy debate, usually a weak link in the chain (1992: 14).

Just *how* the Programme Executive, until recently a unique body in the implementation of European-funded regional development contracts in the UK, has been able to develop this role has never been explored. Moreover, what is the significance of this role in terms of the effective implementation of the contract, and how have practical implementation problems been linked with policy debate?

Although the original IDO submission had specified that a Programme Executive would provide the secretariat and administrative support to the two-tier committee structure, and outlined the broad functions of such a body, no detailed thought was given to the development of the Executive. The staff requirements of the PE were not detailed, beyond suggesting that a full-time Programme Director should be appointed. The Programme Director was appointed in June 1989. This official was seconded from the Chief Executive's Office of Strathclyde Regional Council and therefore had some knowledge of the IDO background and application process, but he quickly had to establish some 'distance' between his new role and his employer. To assist the Director, an administrative officer was appointed in November 1989 and a clerical assistant was appointed in January 1990. Alongside the part-time financial controller seconded from the Scottish Office, this meant that the PE had a staff of three and a half officials in its first few months of existence. Two further senior appointments (Programme Managers for the ERDF and the ESF programmes) were made in March 1991. Funding at that time, in the absence of technical assistance from the European Commission because of government additionality rules, came largely from Strathclyde Regional Council as the major partner, although twelve other partners (including the New Town Development Corporations and seven district councils) each made annual contributions.

Since becoming operational in June 1989, the workload and responsibility of the PE has increased steadily. The first six months of the Executive's work were taken up with simply establishing the office, convening the Co-ordinating Committee and Working Groups, and clearing the two year backlog of ERDF project applications (the programme initially considered eligible expenditure retrospectively to 1 January 1988). In addition, an application process for ERDF and ESF projects had to be established. The consultants subsequently appointed to evaluate the IDO's performance suggested that the fact that the Executive only became operational well into the life of the IDO handicapped the monitoring and development of the programme (Pieda plc 1993). However, this delay seems inevitable given the retrospective nature of the initial funding and the fact that the first committee, charged with approving administrative arrangements for the implementation of the programme, did not meet until mid-1989. By 1991, however, regular meetings took place and financial control systems had been approved.

By 1992 the specific role of the Programme Executive in the implementation of the contract was becoming clearer. The Executive can clearly be viewed as a 'special purpose institution'. In May 1992, a RECHAR Monitoring Committee was established to provide guidance for the use of funds approved for Western Scotland under that Community Initiative. At its meeting of 19 May 1992, the RECHAR Monitoring Committee approved a report on the management of the RECHAR Programme. While the report set out the terms of reference for the Committee itself, of more interest in this context is the role spelt out for the Programme Executive. By this stage, the PE had been in operation for three years and the report presents one of the clearest statements of its role. Although the report referred primarily to the RECHAR programme, the role set out was the same as that performed by the PE with respect to the mainstream programmes. While the Scottish Office Industry Department remained responsible for all ERDF financial matters and the Department of Employment for all ESF financial matters, including payments and claims, the specific functions of the PE in programme management were set out as follows:

(i) assisting authorities to develop eligible projects that meet the programme objectives:
(ii) ensuring properly completed, justified and appraised applications are presented to the Committee;
(iii) acting as the secretariat to the Committee by ensuring timely preparation of reports for and minutes of meetings, maintaining records of project applications, decisions and

financial progress, and issuing project approvals with the appropriate conditions of award;

(iv) monitoring projects' physical and financial progress against targets and schedules and preparing progress reports for the Committee and Commission; and

(v) ensuring authorities are aware of their responsibilities for complying with EC Directives, in particular, these relating to public procurement, the impact on the environment and state aid notification.[13]

It should be noted that by 1992 the PE was therefore expected to take a more *proactive* role in project development. Rather than a simple secretariat processing applications, the PE assisted partners in the development of suitable projects for support. This function increased in importance as new, less-experienced partners became eligible for support and as the shift in emphasis of the programme away from large-scale infrastructure continued. Pieda therefore found that, while the Programme Executive's checking of projects was relatively 'passive' in the early days, an increasing amount of its time is taken up in the eliciting of proposals, their subsequent analysis, discussions with the project's sponsors, re-drafting and re-submission of projects and their eventual presentation to the Working Groups (1993: 17). As a result, the role of the PE in determining the ultimate shape of the contract, through shaping the nature of the projects assisted, has also increased. The strategic importance of the PE to the European Commission in the latter's attempts to shape the implementation of the contract is therefore potentially of great significance. That the European Commission supported the 'technocratic' role of the Executive can be seen in its consistent support for an increase in the resources devoted to the PE, not least through technical assistance.

A series of papers examining the future staffing and funding requirements of the Programme Executive were prepared for consideration by the Strathclyde IDO Co-ordinating Committee/CSF Monitoring Committee throughout 1992 and early 1993. The staff of the PE in 1992 had been appointed only to 31 March 1993, three months after the completion of the IDO on 31 December 1992. However, approval of the new Western Scotland CSF for 1992/93 and the certainty of a new Operational Programme for 1993 led to the need to extend the employment contracts of PE officials. Furthermore, the expected workload generated by the new programme necessitated a review of staff numbers and responsibilities, and the wider role of the Executive in programme implementation. Both the Scottish Office and Strathclyde Regional Council (with the backing of the European Commission desk-officers for the region)

[13] Western Scotland RECHAR CSF Monitoring Committee, 'Report on Management of the RECHAR Programme', May 1992, typescript, p.2.

agreed in general terms that extra staff were required for the PE. The Chief Executive of Strathclyde Regional Council agreed to continue the secondment of the Programme Director and to maintain financial support. Furthermore, the Director of Personnel of the Council suggested that three additional professional staff and three administrative staff were required. To finance this expansion in the Executive, the Council decided to pursue support under the Commission's technical assistance provisions. Moreover, at this time the Scottish Enterprise and LEC Network had been recognised as eligible for support, and their involvement was seen as an opportunity to spread the burden of contributing to the costs of programme management. The partnership convened a small advisory sub-committee of the CSF Monitoring Committee to examine the role of the PE and decided to approach the LECs for support.

A number of changes in the nature of the contract itself, which had required a reorganisation of the committee structures, also drove the need for change in the structure of the Programme Executive. A greater number of partners, increased competition for funds and the likelihood of smaller projects seemed set to increase the PE's workload, as did the Commission's calls for clearer project selection strategies and improved monitoring and evaluation. As the Executive devoted more of its time to such requirements, there was the danger that the partnership (and the European Commission therein) would become over-reliant on certain partners for programme management matters, such as the preparation of annual reports. In other words, as the Programme Executive was drawn further into the provision of monitoring and evaluation, the asset specificity of the resources provided by spending partners (such as data in project applications) was set to rise unless the resources of the Executive were increased.

In October 1992 the sub-committee of the CSF Monitoring Committee set up to examine the Programme Executive reported to the full Committee. It had met on three occasions and comprised senior members of the partnership: chaired by the Scottish Office, it had been attended by the Programme Director and representatives of Strathclyde Regional Council, Inverclyde District Council, Motherwell District Council, and Enterprise Ayrshire. The European Commission input into discussions was made indirectly through the Programme Director, who was in regular contact with the DG XVI desk-officer for the region. The sub-committee reached agreement over the future funding of the PE. The twelve junior partners agreed to continue their annual financial contribution, while Strathclyde Regional Council repeated its commitment to maintain both its contribution and the secondment of the Programme Director. For the first time, five LECs agreed to an annual contribution of around £20,000 each. The sub-committee also agreed to expand the PE by creating the posts of senior programme manager and two assistant programme managers, as well as two further clerical posts. The general conclusion of the sub-committee was that the PE model was effective, but that the issue should be reviewed over the longer term.

The Scottish Office in particular had become aware by 1993 of the enhanced role developed by the Programme Executive in the implementation of Structural Fund programmes in Western Scotland. The expansion of the PE in terms of its annual budget and staff resources had been rapid since 1989. Moreover, the lifting of the block on revenue financing meant that a number of employment arrangements might need to be reviewed in order to secure technical assistance from the European Commission.[14] More importantly, the new transparency arrangements combined with the new priorities of the programme meant that the enhanced role of the Executive in project development placed a considerable discretion in the hands of the PE in indirectly allocating public expenditure approvals within the region. Consequently, the Scottish Office prompted a review of the longer term organisation of the Programme Executive. The sub-committee of the CSF therefore continued its deliberations on the future development of the Programme Executive.

In May 1993, the sub-committee on the Programme Executive made a further report to the CSF Monitoring Committee. Following discussions among the partnership in late 1992 and the lessons of the Pieda evaluation, the sub-committee had clarified the essential requirements that were necessary. It was clear that the existing model had worked well, and therefore that changes should be evolutionary and intended to develop present arrangements for the future. Although it was a widely held view among the partnership that the PE should be as independent as is practicable of any one partner and serve the interests of all partners, there was still a need to have a lead partner to act as employer and hence as the sponsor of technical assistance applications. Interview sources have suggested that, although the report emphasised that the partnership operates in an ever-changing and complex environment, and therefore that growth in management tasks was likely to continue in the next round of the Structural Funds from 1994, behind this rationale for modifications to the PE structure, there lay the intention of the Scottish Office to increase its own supervisory role over the Executive.

A *Joint Management Board* was therefore set up by the partnership, largely at the insistence of the Scottish Office. The Board is essentially a formal sub-committee of the CSF Monitoring committee, with the prime task of overseeing the work of the Programme Executive. Membership comprises the Scottish Office as the main

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[14] The paper *Structural Policies - Technical Assistance Granted to Member States in the context of the Reform of the Structural Funds* of December 1990 set out the main items that can be funded through technical assistance: studies into various sectors, economic issues, preparation of programmes, training for partners, improved secretariat functions, evaluation, publicity campaigns, and computerised monitoring systems. There could be no technical assistance for secondees, but TA would be available to fill the post left in the seconding organisation.

implementing authority, and Strathclyde Regional Council as the official employer of the PE staff and hence the sponsor of the technical assistance application. In addition, it was suggested that three or four other partners should be involved on the Board, including at least one representative of the Scottish Enterprise Network and at least one District Council. The Programme Director would be expected to attend meetings, as would any other staff as required. In the event, the sub-committee on the Programme Executive essentially transformed itself into the Joint Management Board. It was agreed that the Board should meet twice a year and as often as business requires, and its terms of reference set out the following tasks:

- to oversee and guide the Programme Executive in relation to the implementation of the Programmes;
- to account for the expenditure by the Programme Executive, including determining the annual contributions of partners, approving items of expenditure over an agreed delegated limit and forward planning;
- to prepare an annual report on the work of the Programme Executive including an annual financial statement for the CSF Monitoring Committee;
- to monitor the staff structure and workloads, make adjustments where required within the agreed budget and make recommendations for any changes that require additional resources.[15]

The funding of the PE was also changed for the post-1993 period. Its budget is now met 50% from technical assistance, following the success of the application for such support, with the rest coming from subscriptions. Although the Commission would not allow the Programme Executive to charge a levy on individual awards, when an authority becomes a partner (in effect when it submits its first application), it pays a flat rate subscription. Thereafter it pays a subscription rate of 0.4% on project approvals: in other words, for every £1000 a partner receives in grants, at the end of the year it contributes £4 in administrative charges, although partners with annual grant awards below £50,000 a year are exempt from charge. *In this way, the Scottish Office has effectively persuaded local actors to provide the resources for programme management, while central government retains a strong role in supervising the PE through the new Joint Management Board.* This created some resentment among local partners who, having increased their staff resources devoted to Structural Fund programmes, found a reluctance within the Scottish Office to do the same for the

[15] Western Scotland CSF Monitoring Committee, 'Report from the Sub-Committee on Future Funding and Staffing of the Programme Executive', May 1993.

region. The transfer of management functions to regional actors has saved the Scottish Office a significant administrative burden.

It should be noted that by 1993 the Programme Executive was responsible to the Scottish Office and the Department of Employment as the lead departments on the ERDF and ESF respectively, indirectly to Strathclyde Regional Council as the employer of PE officials, and directly to the Joint Management Board on operational matters. Interviews have suggested that as the links between the PE and any one of these bodies are strengthened, the Executive's responsibility to the partnership as a whole is reduced, as is its ability to secure the partnership's trust. The Executive enjoys the trust of the partnership only to the extent that it attempts to share influence for all, rather than to guarantee influence for any one partner. Nevertheless, the PE has been able to develop a reputation for fair and effective programme management over the short period in which it has been in existence. Similarly, a store of Structural Funds expertise has been established in the Programme Executive core. This reputation has been facilitated by the fact that the post of Programme Director has been held by the same official since the post was created, and this official retains the confidence of the partnership.[16]

6.6 Reprise and Summary

This chapter has analysed the institutional structures created in line with the partnership principle at the regional level in Western Scotland. While chapter 5 examined the way in which development programming was conducted among the regional actors in Western Scotland, chapter 6 has focused on the structures established with a view to ensuring such programmes are effectively executed. As suggested at the start of this chapter, however, partnership schemes are 'rarely well defined one-off deals between partners with clearly defined goals, but rather sites of continuing political and economic renegotiation' (Mackintosh 1992: 210-211). A highly-detailed analysis has shown, for the first time, the nature of this complex, multi-tiered structure, and the involvement of European Commission desk officers therein. Again, the model of policy implementation as incomplete contracting has highlighted a number of key features of this structure. It is therefore instructive at this

[16] In May 1993, at the first meeting of the CSF Monitoring Committee for the 1993 Programme, the Programme Director argued that the Programme Executive should retain its name as everyone in the public sector in the West of Scotland knew the Strathclyde IDO Programme Executive. To change the name in line with the change in programme would involve a loss of the PE's hard-earned reputation. Although the Scottish Office and the European Commission undertook to consider the possibility of retaining the name, it was later changed to the *Strathclyde European Partnership*, not least because the European Commission did not want the Executive to retain the reference to the name of the pre-reform IDO. As shown herein, the structure and role of the Executive itself have evolved considerably since the original approval of the IDO.

stage to return to the set of questions posed at the start of this chapter. Firstly, the extent to which each partner is involved in the structures which have been established to monitor the enforcement of the contract was questioned. Secondly, how have changes in the contract, and in the composition of the partnership itself, been reflected in the evolution of those structures? Thirdly, the model teaches us to look for the emergence of trust as an implicit form of contracting which reduces the costs of co-ordinated action. These three questions are closely linked and can be considered together at this stage.

The requirement to monitor the implementation of the regional development contract has resulted in the creation of new institutional arrangements at the regional level, which would not otherwise have existed in Western Scotland. However, various actors in that region have differing ideas about the nature of partnership, not least central government and the European Commission. As the Tavistock Institute of Human Relations found in the case of the Eastern Scotland Objective 2 CSF, 'the main polarisation is between those that regard CSF partnership as a "vertical" and hierarchical arrangement and those who see it as "horizontal" and egalitarian. There is also a lack of clarity and agreement about the functions of partnerships and their meetings, for instance whether they are concerned with communication, co-ordination or decision-taking':

> A vertical partnership would emphasise control, based on the differing perspectives, powers and responsibilities of successive 'levels' of government: the Commission, national government, the Regions, the Districts and, perhaps, non-governmental organisations. A horizontal partnership would encompass all these bodies but emphasise a spirit of open discussion and joint problem-solving in relation to priorities, projects and procedures. However, it should be noted that this is an ideal which in reality would be likely to be accompanied by a range of manoeuvres as partners seek to pursue their special interests and arrive at consensus (1991: 19-20).

Such a polarisation is evident in the case of Western Scotland. From the earliest days of the IDO Preparatory Study, Strathclyde Regional Council, with some support from the European Commission, saw the partnership as a 'horizontal' arrangement. The institutional arrangements for the Glasgow NPCI, however, bore the imprint of the Scottish Office's view of partnership as a 'vertical' arrangement. Central government's intention to 'control' the partnership has been evident throughout the period under examination, most recently in the attempt to enhance its supervisory role over the Programme Executive through the creation of a Joint Management Board.

Not only are varying definitions of the principle of partnership evoked by different partners, but partnership itself can take a variety of forms at different phases of the programming process. While chapter 5 illustrated the involvement of different partners in the programme preparation phase, this chapter has shown that even within the programme monitoring phase itself, partnership takes many forms. Higher-level strategic committees have generally operated on a representational basis, while lower-level operational committees for ERDF management involved *all* partners during the period in which project selection was undertaken primarily at that level. The lower-level monitoring committee in Western Scotland was only able to move to a representational membership when the primary responsibility for project selection was devolved to a series of advisory groups for each priority. These groups themselves (set up in response to the increase in number of partners, greater competition for funds, and generally greater size of projects) are now comprised of the main partners with strategic interests under the relevant priority, and do not directly involve the European Commission. In other words, partners are still represented at the level at which project prioritisation takes place. Moreover, the sub-committees and groupings which have periodically been established by the partnership to consider changes in institutional structures (such as the sub-committee on the Programme Executive or even the Plan Team examined in chapter 5) have comprised representatives of the 'major' partners: the Scottish Office, Strathclyde Regional Council, and more recently, Scottish Enterprise. 'Horizontal' or 'egalitarian' conceptions of the partnership principle have generally been put aside when decisions regarding changes in the partnership structures themselves have to be made.

The limits of partnership have been acknowledged by the partnership itself in the most recent document analysed herein, the Plan for the post-1993 period. By 1994, a core of actors in Western Scotland had accumulated around a decade of experience of working in partnership on European funding at the regional level. The 'basic principle of partnership', according to the Plan document, 'is that all eligible organisations who receive Structural Fund support through the Programme should be involved in the Programme implementation' (Scottish Office/Strathclyde European Partnership 1994: 57). While this had been achieved during the years of the Strathclyde IDO when partners comprised primarily a range of bodies supplying public infrastructure investment, the expansion of the partnership in 1993 had forced a review of partnership arrangements. In other words, the inherent limits in decision-making using the horizontal approach to partnership had been reached. At the same time, the persistence of central government's vertical approach was reaffirmed: 'although the aim has been to devolve as much of the programme management and administration to the Programme Executive, there are tasks that remain the responsibility of the Scottish Office as the implementing authority. The Scottish Office Industry Department for both ERDF and ESF (recently transferred from the Department of Employment) has overall responsibility for approval of projects, payments, audit and accountancy of the Structural Funds' (Scottish Office/Strathclyde European Partnership 1994: 59).

The emergence and development of a sense of trust among the partnership is most evident in the evolution of the Programme Executive. This body, which has evolved in an incremental manner, remains responsible for the collection of monitoring information at the project level on physical progress, financial progress and performance outcomes. The Executive was until recently a unique body in the UK, charged with the overall task of guaranteeing the effective management of the programme in the best interests of all the partners to the contract. As such, it has been suggested herein that the Executive is best conceptualised as a special purpose institution. Given the range of the interests it seeks to accommodate, however, and different conceptualisations of partnership, the PE's role has proved far from straightforward, not least because the it has not always enjoyed the resources to undertake the task. The fact that the Programme Executive is viewed by the partnership as a largely independent body, and that it does not undertake projects itself, has been a prerequisite for the development of the problem-solving capacities of the former and the level of trust it has been able to evoke.

The introductory section of this chapter also questioned the extent to which a professional community of experts in the field of programming has developed in Western Scotland. The recent emergence of the advisory groups can be seen as an attempt to build accumulated expertise into institutional structures. The future relationship between the advisory groups (the remit of which is to provide expert advice on specific strategies, the development of assessment schemes, and recommendations on project applications) and the Programme Executive (which chairs advisory group meetings) will be a central test of the extent to which a problem-solving approach has developed through the wider partnership in Western Scotland. The way in which this relationship evolves, without the direct participation of the European Commission, will illustrate whether partnership in Western Scotland remains primarily a mechanism for carving up resources, or whether the European Commission's intention of securing greater cohesion in measures to support regional development has been realised. In the past, central government itself has most obviously sought to claim all the financial benefits of the programming process by refusing to respect the principal of additionality. As it increases its control over the Executive (through the Joint Management Board), it also endangers the trust that body has accumulated among the partnership.

Finally, it should be noted that a key focus of this chapter has been on the extent to which the institutional structures of partnership have been designed to ensure local flexibility and adaptability to unfolding circumstances. As emphasised in chapter 5, the programme preparation phase can result only in an incomplete contract in that the solutions to many potential problems are not worked out in advance. Rather, the *ongoing relationship* between partners is recognised and institutional structures are designed to respond to changing circumstances as necessary. As the Commission's own guide to the reform of the Structural Funds noted, monitoring may give rise to the need for adaptations. It has been suggested in this chapter that the response of the partnership in the case of ERDF implementation can usefully be conceptualised as one of relational contracting. Paragraph 6 of the 1988 IDO Decision (European Commission 1988) emphasised the likelihood of modifications to the programme after it had been agreed. Rather than seeking to anticipate such adaptations, however, the partnership simply set broad targets and agreed who had the right to modify the programme. The higher-tier Co-ordinating Committee was therefore responsible for overall direction and policy, and could change the expenditure profile of the programme (re-directing up to 15% of any sub-programme into other sub-programmes). This left a great deal of discretion at the regional level *after* the agreement of the programme. It is from the output in institutional terms to the policy output in terms of projects supported that this analysis now turns.

Chapter 7. Project Selection: Fulfilling the Contract?

> Particular facts may vary but the general story is the same: a sensational announcement from Washington on page 1, temporary local jubilation, permanent difficulties, and, perhaps years later, a small blurb on the back page signalling the end (Pressman and Wildavsky 1973: 135).

> News of a £1 billion investment to transform Strathclyde's economy has left the region wondering whether there is, after all, a Santa Claus. The announcement yesterday that the European Commission is giving £380 million, said to be its biggest financial aid package ever, as the largest slice of funding, led Mr Ian Lang, the Scottish industry minister, to say: "This is a tremendous Christmas present for Strathclyde" (*The Scotsman* 22 December 1988).

7.1 Introduction

This chapter analyses the ultimate phase of the contracting process, the selection of projects within the framework of the regional development strategy. This phase is perhaps the least explored, due to the difficulty of accessing data on individual projects supported within the region, and the even greater difficulty of accessing data on those project applications which are rejected. Nevertheless, this is a crucial element of European regional development policy: as suggested in the introductory chapter to this thesis, policy emerges across the whole process from the agreement of the Regulations to the ultimate co-financing by the European Commission of local partners' projects. The relationship between the partners across all stages takes place within the framework of the regional development contract, but the ultimate shape of that contract depends on the phase of project selection just as it depends upon the Regulations. Pressman and Wildavsky's pessimism was intended to forewarn of the many pitfalls that lie between initial policy decisions and the ultimate output of a policy. The optimism they predict at the moment of a policy announcement was no less apparent in the case of the Strathclyde IDO than it had been for the Oakland project which provided their case study. This chapter looks at the policy output of the regional development contract in Western Scotland.

The front page announcement in *The Scotsman* newspaper on 22 December 1988 of a 'Christmas present for Strathclyde' seemed almost too good to be true. The newspaper pointed out that IDO status for the high-unemployment areas of Strathclyde would bring, among other benefits, the following: 5,000 new jobs by 1992 through inward investment, particularly in new technology; 25,000 jobs by the year 2000, through the creation of 2,000 small and medium-sized businesses; 5,000 jobs for Glasgow by the year 2000 resulting from the city's international promotion; and, more than 40,000 training places for the region's unemployed. The Pieda evaluation of the IDO (1993) illustrates that the targets set by the partners themselves for the programme were somewhat less wildly optimistic. Nevertheless, it is accurate to suggest that the initial euphoria in the press has been followed with little public scrutiny of the programme's performance, and the winding up of the IDO at the end of 1992 did not receive the same fanfare. What happened between 1988 and late 1992 in terms of programme output is analysed herein.

This chapter, the third and final chapter of the case study of ERDF implementation in Western Scotland, complements the previous two in their assessment of the applicability and utility of the model of policy implementation as incomplete contracting. In short, the emphasis at this point is on the *incompleteness* of the original contract, and how the inevitable flexibility of the agreement can be used opportunistically by domestic actors (in this case central government) to re-shape the contract at the project selection stage. The focus of this chapter is primarily on the period up to mid-1992, as information on the output of post-IDO programmes is much more difficult to obtain (for practitioners as well as academics). As such, this chapter is necessarily shorter than the previous two, although it again develops and examines a set of questions designed to test the applicability and utility of the model developed in chapter 2. The ability of the European Commission to shape the ultimate output of the programming process remains at the centre of the analysis.

The key questions addressed in this chapter reflect and develop upon those around which chapters 5 and 6 were structured. The focus of analysis is still on the nature of the exchange between the European Commission and domestic actors in Western Scotland:

1. *When does the final shape of the regional development programme become apparent?* Does the ultimate output of the programme reflect the targets and the proposed expenditure profile of the contractual document? To what extent is the final shape of the contract malleable throughout the course of the exchange relationship? Chapter 5 showed how the contract itself 'leaves gaps' to be filled in during project selection in that provision is made for changes in the allocation of resources to each sub-programme. Chapter 6 examined the institutional structures by which this flexibility is ensured. In this chapter, it is argued that central government uses this flexibility to re-direct the programme away from software measures and back to infrastructure measures.

2. *To what extent have 'rational' resource allocation strategies been adopted in Western Scotland?* In other words, as the exchange relationship has endured, has the

European Commission succeeded in its attempt to impose a strategic planning approach on the local partners, or does project selection remain simply a 'haphazard' process?

3. *To what extent has the Programme Executive assisted the European Commission in this regard, and has the trust and reputation built up by the Executive facilitated a problem-solving approach at the regional level?* Alternatively, are the actions of the partners best described simply as a form of 'funding consciousness'?

It should be emphasised that the focus of this chapter is on the *output* of the regional development programme in terms of *out-turn expenditure* for each sub-programme. Aggregated project targets and outputs are presented in the Pieda evaluation (1993), but these are of less relevance to this thesis. The amount of money allocated to each sub-programme, compared to how much the original contract specified would be allocated, is a better indication of the way in which the contract was modified than is evidence on the shortfall between project targets (in terms of jobs created for example) and project outputs. Moreover, data on programme outcome (in terms of the impact of the project outputs on the performance of the regional economy) are of even less relevance for this thesis. The research approach adopted in this chapter, as proposed by O'Toole, favours the social-scientific questions of implementation research, rather than causal explanations of regional economic development:

> This conceptualisation includes actions of implementers ... while explicitly not encompassing all consequences flowing from the initiation of the policy action. Thus, for example, if implementers carry out intended behaviours but those behaviours fail to have the effects the policy-makers had expected, there is a "failure". But the problem is not an *implementation* problem, as the term is intended here. For the failure lies in a lack of understanding of the connection between the social action engendered and its effects on the real world, rather than (for instance) in a collective action problem, or recalcitrance, or a lack of monitoring. In other words, a theory of implementation would explain the behaviours of implementing actors, not necessarily predict the ultimate success of policy makers or other actors in achieving stated objectives ... The key point for present purposes is that implementation theory encompasses questions that are clearly social-scientific (1993: 30).

Rather than presenting an economic evaluation of ERDF programmes in Western Scotland, this chapter presents an analysis of the reasons why the ultimate shape of the programme in expenditure terms differs from its ex-ante stated shape.

The remainder of this chapter is organised in five sections. **Section 7.2** presents a brief analysis (in financial terms) of the earliest programme of ERDF expenditure implemented in the west of Scotland. The Glasgow National Programme of Community Interest experienced an overall underspend on projected expenditure of 24%. The reasons why this occurred are examined before turning to the larger, and more complex Strathclyde IDO. **Section 7.3** compares the spending targets of the original 1988 IDO document with the expenditure profile of the IDO at May 1992. The proposed expenditure allocations set for each Action Programme are considered alongside out-turn expenditure. Given the sensitivity of this issue, the analysis draws heavily on the publicly available information contained in Pieda's 1993 interim evaluation of the IDO. The key finding of this section is that resources nominally allocated to revenue-financed business development schemes were re-directed during the course of implementation towards capital-financed infrastructure projects. **Section 7.4** analyses the general process of *virement* by which this re-direction of financing took place. The analysis in **Section 7.5** then turns to the question of project selection strategies, and more particularly to European Commission attempts to encourage transparency in the way in which resources are allocated to projects, before **Section 7.6** summarises the key findings of this chapter. It is to the 'expenditure slippage' under the first programme of ERDF expenditure in the case study region that the analysis now turns.

7.2 Expenditure Slippage under the Glasgow NPCI

The experience of the Glasgow NPCI shows how difficult it was for the regional partners simply to spend financial resources in the early days of ERDF programming. It was already clear by April 1987 that the NPCI was going to register a severe underspend on its projected expenditure. There was such a large underspend on the roads sub-programme of around 40%, which in turn formed a massive percentage of the whole programme, that there was in effect an overall underspend of 24% on the proposed expenditure. The official explanation for this slippage, in which there is undoubtedly some truth, was that unforeseen planning delays and an over-estimation of the amount that could be 'drawn down' were the source of the problem. As suggested below, however, central government controls on capital expenditure were undoubtedly more significant.

At a meeting of the NPCI Co-ordinating Committee in late April 1987, the Industry Department for Scotland suggested that the main objective of the Programme had become to 'commit' as much as possible of the £68.2 million ERDF award before the end of the Programme period, i.e. before 31 December 1987. 'Commit', the Chair of the Committee explained, did not mean that the money had to be spent by that date, but rather that projects had to have started by then.[1] In an attempt to spend all the money, it was decided that suitable projects started before 31 December 1987 would be eligible. Nevertheless, as table 7.1 illustrates, there was still an overall underspend of almost £30 million on the programme, amounting to the failure to draw down over £17 million in ERDF grant. The only sub-programme with a significant overspend was tourism, but this was achieved through the inclusion of one relatively large project, sponsored by Glasgow District Council, to convert the city's Kelvin Hall into an indoor sports arena and museum. This overall underspend can be interpreted as a 'failure' on behalf of central government as it failed in its own objective of 'drawing down' resources to the benefit of the Treasury. Likewise, DG XVI had failed to ensure that the budget allocated to the city was spent, and hence the local actors had also missed out on potential interest payment savings on capital works that they would have undertaken anyway. The reasons for this underspend can be considered under two headings: eligibility of the partners; and, additionality in practice.

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[1] Minutes of the Meeting of the Co-ordinating Committee for the National Programme of Community Interest (NPCI) for the City of Glasgow, held on 28 April 1987 at the City Chambers, Glasgow.

Table 7.1: Glasgow NPCI (1985-88) Underspend/Overspend by Sub-Programme

	Planned Expenditure £	Actual Expenditure £	Underspend/ Overspend %
Roads	56,000,000	33,093,572	- 41%
Public Transport	23,000,000	20,312,116	- 12%
Water & Sewerage	11,000,000	11,493,200	+ 4.5%
Industrial Development	7,500,000	5,796,099	- 23%
Vocational Training	4,100,000	1,927,887	- 53%
Energy	10,400,000	9,260,031	- 11%
Environmental Improve.	7,000,000	5,023,310	- 28%
Tourism	5,000,000	7,815,160	+ 56%
Grand Total	124,000,000	94,721,375	- 24%

Source: The Scottish Office (1993a) *Glasgow National Programme of Community Interest Final Report* (Edinburgh: The Scottish Office).

Eligibility of the Partners: To an extent, this problem, which revolved around the issue of British Gas privatisation, had been anticipated by the European Commission. As suggested in chapter 5, the partners had recognised at the outset the likelihood that privatisation would mean that British Gas projects were no longer eligible. With the election of the Conservative Government in the UK in 1979, an initiative had been launched to increase share-holding among the public and to transfer certain services and industrial activities from the public to the private sector. Many of the privatised bodies were involved in the provision of infrastructure and had thus been eligible as public bodies for ERDF support: Associated British Ports, British Telecom, British Gas and regional water authorities. These bodies could attract a significant percentage of ERDF resources given the importance of infrastructure in terms of regional development as it was stressed by the UK government in the context of EC regional policy. However, ERDF eligibility for such bodies became an overtly political problem as the opposition Labour Party was firmly opposed to privatisation. Some Labour MEPs criticised the Commission for grant aiding bodies about to be privatised on the basis that the aid would go directly to shareholders. Point 10 in the Addendum to the Decision (whereby the Commission would review the eligibility of British Gas were it to be privatised) had been included to guard against this accusation (see chapter 5). However, the Commission had been unable to anticipate the bargaining which subsequently occurred over *when privatisation actually took place*.

The Commission believed that the date of privatisation of British Gas was 6 November 1985 (the date of the announcement of the privatisation in the Queen's Speech to Parliament), before the NPCI Decision was even announced. As a result, the Commission suggested that point 10 of the Addendum, suspending British Gas projects, should apply immediately. The Scottish Office, by contrast, argued that the real date of privatisation was 25 July 1986, the date of Royal Assent of the privatisation legislation (*The Gas Act*). A long process of bargaining began in which the Industry Department for Scotland maintained that projects initiated by British Gas before July 1986 should be supported, or else there would be an underspend on the energy sub-programme. The Commission replied that British Gas had been privatised without grant having been allocated to projects in question, and that the share sale price was struck without reference to ERDF grant. Any allocation of ERDF would therefore result in a windfall gain to the private shareholders. The Commission view eventually prevailed and British Gas projects dropped out of the programme. As the sole supplier of gas-related infrastructure, the *asset specificity* of the resources brought to the exchange relationship by British Gas was high. A change in the status of that body resulted in a failure of the programme to achieve its aim of assisting gas supplies to new industrial developments. Subsequent changes in project eligibility, in particular the loss of eligibility for such projects, reduced the significance of this problem.

Additionality in Practice: By far the most significant obstacle to the fulfilment of the NPCI contract (in terms of spending the money) was the policy of central government not to issue supplementary spending approvals to allow authorities in receipt of ERDF grant to undertake additional capital expenditure. Prior to the approval of the NPCI, the Scottish Office had written to the programme participants to emphasise that the ERDF bid had been made on the strict understanding that no supplementary approvals would be issued on receipt of ERDF grant. In other words, proposed expenditure would need to be accommodated within existing capital consents. IDS officials emphasised that the intention was to maximise Community resources to the UK, but without increasing domestic expenditure. The result of this policy stance was a severe programme underspend, as there was little incentive for local actors to proceed with low priority projects for which they would only receive a marginal financial benefit.

Another aspect of the additionality problem was the refusal of central government to approve ERDF Article 15 measures. Examined in depth in chapter 3 above, these were essentially measures aimed at assisting small and medium-sized enterprises (SMEs) to expand their activities and obtain access to new technology, with a view to exploiting the potential for internally-generated regional development. The key point noted above is that such measures (for example, supporting the running costs of centres to promote technology transfer) would be financed through local actors' revenue budgets. Hence, central government would have little direct control over the grant were it to pass finances on to local authorities. The UK government therefore simply refused to process Article 15 applications, thereby avoiding the problem of whether or not to transfer the aid for such measures to the authorities concerned. Point 5 of the Addendum to the Decision stated that 'the Co-ordinating Committee shall give active consideration to proposals for measures as envisaged in Article 15 of Regulation 1787/84 to exploit the potential for internally generated development of the area covered by the programme with a view to their inclusion in future requests for aid in respect of further programmes for the development of the City of Glasgow'. However, an extensive range of local authority applications under Article 15 were simply blocked in London several years after the 1984 Regulation. As De Witte has suggested more generally, the separate treatment of Article 15 measures (outwith programme arrangements) actually served to limit rather than encourage their financing (1986: 429-430).

The problem of expenditure slippage was also a feature of the subsequent Strathclyde IDO. By the time the IDO was approved, the partners had gathered some two years experience of programming. However, the extension of eligibility to new partners and the introduction of ESF financing to the contract made programming significantly more complex. It is to the IDO spending targets and expenditure outputs that this chapter now turns.

7.3 Strathclyde IDO: Spending Targets and Expenditure Outputs

The approval of Strathclyde IDO in December 1988 marked the introduction of the strategic programming approach in Western Scotland. It should nevertheless be emphasised that executing the programme still involved the financing of a series of projects, selected at the regional level. Projects were financed in the context of a number of Action Programmes, set out in chapter 5 above. Chapter 5 also indicated that the United Kingdom government allocated a lower percentage by far than any other member state to 'software measures'. Against this background, the fact that the European Commission was able to secure an allocation of 16% of the proposed ERDF resources under Strathclyde IDO to the 'Enterprise, Innovation and Investment' Action Programme can be seen as something of a breakthrough, as the NPCI had not included any business support measures. However, this section emphasises that *the* *programme itself is not the end of the process.* Table 7.1 shows the difference between budgeted and actual expenditure approvals for each Action Programme. The table is of crucial importance as it shows the capacity of central government to re-allocate expenditure *after the agreement of the contract* away from the revenue-financed Action Programme it opposed, to the capital-financed Action Programmes it favoured (such as 'Tourism Development' and 'Industrial Sites and Premises').

The distinction made by central government between capital and revenue expenditure for ERDF purposes is again very relevant, although it is 'a limitation that national government imposes on the use of European funds which do not themselves recognise a distinction between capital and revenue' (PACEC 1991: 21). The distinction became central to DG XVI's attempts to shape programmes in the UK, as noted by Jones Economics Consultants: 'some ERDF is provided for "software" type business development measures. These are revenue expenditure and there are generally no restrictions on authorities' freedom to use the grant to finance additional expenditure. This partly explains the Commission's policy of seeking to increase the importance of these elements within the CSF at the expense of infrastructure' (1991: 43-44). Chapter 5 showed the 350% increase since the late 1980s in the share of such expenditure under strategic programming priorities for Western Scotland. However, table 7.1 illustrates the need to look beyond this headline figure. The Enterprise, Innovation and Investment Action Programme was the main Action Programme providing for revenue-financed projects by local authorities. Only around 22% of the original budget proposed for that Action Programme in the original IDO document had been spent by May 1992, the final year of the IDO's operation.

Table 7.2: Strathclyde IDO Budgeted and Actual ERDF Commitments at May 1992

Action Programme	(a) Original Budget	(b) Budget at Feb. 1991	(c) Budget at May 1992	(d) Approvals & Applications at May 1992	(e) Percentage Resources Committed (d/c)
Enterprise, Innovation & Investment	£37.354m	£34.436m	£15.836m	£8.456m	53%
Industrial Sites & Premises	£18.100m	£18.100m	£25.100m	£21.520m	86%
Tourism Development	£17.000m	£19.550m	£29.550m	£20.622m	70%
Transport & Communications	£85.350m	£85.350m	£85.350m	£79.652m	93%
Underground Services	£57.200m	£57.200m	£57.200m	£56.756m	99%
Environmental Improvements	£14.200m	£14.200m	£14.200m	£7.811m	55%
Voc.Training Facilities	£2.450m	£2.900m	£4.418m	£3.452m	78%
Total	£231.654m	£231.654m	£231.654m	£198.269m	86%

Source: Pieda (1993) *Strathclyde Integrated Development Operation: Interim Evaluation - Final Report* (Edinburgh: Pieda).

At the mid-point of the IDO's execution in January 1991, the Enterprise, Innovation and Investment Action Programme was the only sub-programme showing a serious underspend. The consultants appointed to evaluate the IDO claimed that the underspend was due to two factors: a low take-up of resources under the central government *Regional Enterprise Grants* (REG) scheme which formed a large part of the Action Programme; and, the failure of the partnership to develop a strategic business development framework:

> On the available evidence, this Action Programme appears to have fallen short of its aims - both in terms of committing resources and generating output. This shortfall may, in part, be attributed to an excessive focus on REG; take-up of REG was less than expected. More fundamentally, the experience of this Action Programme exemplifies the difficulties of setting up active business development projects. Unlike physical infrastructure projects, it is not generally possible to take business projects 'off the shelf' and there can be difficulties in funding projects whose fundamental requirement is, as with business development, for revenue support (Pieda 1993: 32).

The Programme Executive's own progress report for the first three years of the IDO suggested that a major contributing factor to the under-spend in the Enterprise, Innovation and Investment Action Programme was indeed the much lower than anticipated take up of Regional Enterprise Grants. It was then predicted that take-up expenditure for REG may only amount to 15% - 20% of its target allocation of £21.7 million (Strathclyde Integrated Development Operation 1991). Central government, responsible for the scheme, pointed out that REG was created in 1988 at exactly the same time as the IDO, and was created on the basis of a number of assumptions about expected ERDF receipts. It had been difficult to make assumptions about what would have happened in terms of company's demand for support. However, the partnership was annoyed with the criticism by the consultants that a lack of strategic awareness caused the underspend under the Action Programme. Interview sources in the Commission and in the local partnership have confirmed that the real reason for the underspend was *the refusal by the Scottish Office to allow local authorities to present business development schemes to the Co-ordinating Committee for approval*. In effect, central government vetoed the allocation of resources under this Action Programme to local authorities in order to assure its policy of non-additionality.

The underspend under the Enterprise, Innovation and Investment Action Programme was so striking that the IDO Co-ordinating Committee meeting of March 1991, called to review the implementation of the IDO over the first three years, had to consider the necessity of transferring ERDF resources between Action Programmes.

The way in which such flexibility was built into the programme at the outset was examined in chapter 5. Moreover, the discussion of relational contracting in chapter 6 emphasised the procedure by which partners agree to shape the terms of the relationship rather than specifying in advance the exact performance required. The following section considers the way in which the flexibility of the programme was employed in practice.

7.4 *Virement*: The Flexibility of the Contract

Virement is the term used by the European Commission to denote the flexibility allowing the transfer of resources after the agreement of the original programme. The Commissioner for Regional Policies has emphasised the importance of such procedures:

> Within the programmes themselves, within the priorities under the programmes, we make adjustments all the time. Supposing you had a particular heading 'Business development to help small business' and that was going well - even though, as it happens, we have got difficulties with the United Kingdom Government on that particular aspect of things - we would want to transfer money away from, say, a programme for tourism development which was not going very well. These are hypothetical examples, but there is within the arrangements, under the Community Support Framework, a certain flexibility which can be operated at the monitoring committee level. Bigger transfers in percentage terms require the authority of the Commission, but the flexibility is there (House of Lords 1992: 97).

The Strathclyde IDO Co-ordinating Committee recommended a virement of resources under the IDO in 1991, and this was agreed by the Commission by letter in October of that year. The original ERDF allocation to the sub-programme for Enterprise, Innovation and Investment had been £37.3 million for the period 1988-1992, amounting to approximately 16% of the total ERDF allocation to the IDO. In March 1990, the Co-ordinating Committee agreed an initial virement of £2.92 million out of this sub-programme into the 'Tourism' Action Programme (£2.55 million) and 'Vocational Training Facilities' Action Programme (£0.37 million). However, in August 1991, after a full review of the implementation of the ERDF element of the IDO, the Co-ordinating Committee agreed the following further modifications to the ERDF financial plan:

(i) that the Tourism Development Action Programme be increased by £10 million;

(ii) that the Industrial Sites and Premises Action Programme be increased by £7 million;

(iii) that the Employment and Vocational Training Action Programme be increased by £1.6 million; and

(iv) that to fund these increases, £18.6 million should be transferred out of the Enterprise, Innovation and Investment Action Programme to the above three Action Programmes.

The virement would leave just £15.8 million under the Enterprise, Innovation and Investment Action Programme, £8.5 million of which had already been allocated. In June 1991 the Scottish Office had informed the Commission by letter that the indicative split of the remaining £7.3 million ERDF would be £3.5 million to local authority business development projects, and £3.5 million to Scottish Enterprise and LEC projects (also promising that the funds to the LECs would be additional to the resources already allocated to Scottish Enterprise and LECs by the Scottish Office). Hence, central government undertook to recognise the Commission's preference for local business development projects, as opposed to those run by central government itself.

The Commission, unwilling to be blamed for an underspend on the whole programme, eventually approved the virement. In agreeing to the virement in October 1991, the European Commission insisted on the following conditions: the break-down of remaining resources should be as stated in the Scottish Office letter (i.e. half to LECs and half to local authorities); that this would not prejudge the Commission decision on the eligibility of the LECs; that the Programme Executive should present to the Co-ordinating Committee an analysis of the impact of the virement on the IDO's targets and strategies; and, that the approval would not prejudge the break-down by priorities of the additional Community Structural Funds available for Western Scotland under the Community Support Framework for the period 1992-1993. Moreover, the Commission insisted on the development of clearer strategies for the allocation of resources at the regional level. It is to project selection strategies that this chapter now turns.

7.5 Project Selection Strategies

The question of resource allocation strategies at the regional level is highly detailed and technical. It is also a relatively dull topic, so at this stage of the case study the reader should be spared excessive detail. The point to note is that project selection strategies, whereby resources are ultimately allocated to projects at the regional level, are of great significance in the final shape of the contract. By October 1992, over 300 ERDF applications were approved under the IDO, and another 150-200 new project applications were received annually by the Programme Executive. The Commission wanted to see the development of clear strategies for selecting between project bids. In short, the European Commission wanted to see a move from mere 'funding consciousness' in all eligible regions towards a more strategic awareness of programming issues, ensuring that the 'commitment of participant authorities goes beyond the desire solely for a successful bid for funding support' (Conran Roche Planning 1991: 61).

The Commission itself provided only simple guidance on projects at the regional level. The basic economic rationale for Community intervention in Objective 2 regions was specified in guidelines which were adopted by the Commission in February 1989, stressing *productive investment to create employment*. For example, rather than providing basic infrastructure which is usually already in place in Objective 2 regions (in northern member states), activities should focus on modernising areas and infrastructures which, though run-down, offer the potential to support economic activity if they are redeveloped. However, the approach to Objective 2 remains flexible, as is shown by the seven development priorities which were specified for Objective 2 areas in the first *Annual Report on the Implementation of the Reform of the Structural Funds* as follows:

(i) Schemes to improve the scope for developing productive activities (e.g. the provision or regeneration of sites for industrial and commercial use and associated training projects);
(ii) Schemes to promote the development of new business (e.g. the provision of training, support and joint business services);
(iii) Schemes to improve the environment and enhance the image of rundown industrial areas;
(iv) Schemes to promote and develop tourism;
(v) Schemes to encourage research and development, in particular by the provision of vocational training facilities;
(vi) Schemes to promote trans-frontier co-operation;
(vii) Schemes to improve the transport infrastructure (1990: 51-52).

This does not go much beyond a basic description of the eligible activities in development regions. From the late 1980s, however, the European Commission has been involved at the regional level where it has been possible to give clearer guidance. The Assistant Secretary in the Scottish Office gave his view of the Commission's role in Monitoring Committees to the House of Lords Select Committee on the European Communities in 1992:

> Our position in committees, which are attended by the Commission, is that we are always grateful for their guidance on questions, for example, of eligibility and various technical administrative issues that come up, but when it comes to a question about the priority of a project, providing that it is eligible under the terms of the programme and the Community support framework - the regulations and so on - the decision on the project is taken in that committee, which is chaired by the Scottish Office. Decisions as far as possible are taken by consensus... the Commission does have an input into the judgement of priorities at the initial stage from its European-wide perspective. However, when it comes to the detailed implementation of the programmes, while the Commission does have a role to play, the questions of judgement about what are the priorities within Strathclyde ... are for the Scottish Office and the various local bodies involved in the programmes (House of Lords 1992: 35-36).

The European Commission disposes of the negative power to veto any project on the grounds of eligibility, that is, on questions whether the project occurs within the programme area, whether it corresponds to one or more of the priorities defined in the programme document, whether its expenditure can be contained within the programme period, or whether the sponsor is eligible. However, the Commission believes that central government exercises a more important veto over which projects actually make it to the Committee meetings in the first place. That is, it pre-screens projects before the Commission is involved.

> Now, at the end of the day because the government departments do have a veto - in other words, nothing is agreed unless they agree it - there has been a tendency in the UK to try to pre-screen projects, not necessarily on their merits as they would be considered by the regional or local authority concerned, but in terms of the Government's own priorities rather than the local authorities. Now, we have tried to prevent that happening (House of Lords 1992: 96-97).

This pre-screening was most evident in the blocking of Article 15 projects during the NPCI, and in the refusal to consider locally sponsored business development projects under the Enterprise, Innovation and Investment Action Programme of the IDO. Hence, the Commission demanded greater clarity in the project selection process.

The first ERDF Working Group meeting for Strathclyde IDO took place in July 1989. Around, 100 projects were submitted for consideration, and, in each case representatives of the authority concerned were invited to speak in support of their own projects. This was followed by a Group discussion on the relative merits of the project before a decision was taken, by consensus. The Commission expected to see more information to justify the inclusion of projects in the IDO in economic development terms and to satisfy themselves that authorities were meeting publicity and tendering requirements. Leitch points out that the large number of participants in the IDO and the consequent 'complex network of inter-organisational links' makes rational decision-making difficult. 'While there may be a consensus concerning the objectives of the IDO, there may be a lack of depth to this, with more prominence given to the objectives of the individual organisations by the participants concerned in the IDO'. Further, the early meetings of the IDO committee considering ERDF applications has indicated this. 'Here the representatives were unwilling to criticise projects submitted by other organisations, for fear that they, in turn, would criticise the validity of their own projects when these were being considered. This could well lead to the situation where schemes which only just meet the selection criteria are approved, at the expense of better schemes later on in the timescale of the IDO, when the money begins to run out' (1989: 43).

Central government decisions regarding the suitability of projects are invariably justified with reference to the search for *Value for Money*, or VFM for short. The initials VFM have gained a certain notoriety in the European Commission among desk officers who deal with the United Kingdom. Every desk-officer who dealt with the UK expressed their frustration in interviews at the frequency with which central government officials repeated these words with no explanation of how VFM was assessed. The Government's own guide to project appraisal in central government, widely known as *The Green Book* explains the difficulty of pinning down value for money: 'good appraisal leads to better decisions and VFM. It calls for flexibility and imagination. It is not a ritual in which rigid rules are applied to the letter. Evaluation of past decisions is also important, and relevant to the appraisal of future decisions' (Her Majesty's Treasury 1991: 5). VFM is shorthand for the final social and economic benefit of a policy in relation to the cost, and usually refers to the optimum combination of 'economy, effectiveness and efficiency', each very difficult to define. Nevertheless, the Guide continues by recommending that systematic appraisal entails clarity over objectives, about alternative ways of meeting them, and estimating and presenting the costs and benefits of each option. Appraisal should therefore provide 'a framework for rational thought about the use of limited resources' (ibid.: 5). Cost-benefit analysis is not always appropriate in the case of the Structural Funds, which entail social objectives that are not easily expressed in money terms. *Weighting and Scoring* techniques have therefore been set out as one form of appraising ERDF projects. The various types of projects that come forward even within an Action Programme are very different. Weighting and scoring is devised to allow the comparison of 'apples and pears', as a number of attributes of any given project are specified. In the case of the ERDF, the attributes of projects that are particularly highly desired include the following: a high degree of integration with other ERDF assisted projects; linkage with other Structural Funds or loan instruments; the generation or protection of employment; a beneficial impact on the environment; and a strong relation to the objectives set out in the strategy. Scoring scales are then defined, and weights are designed to assess the importance of each of these attributes against each other, the relative importance of a unit change for a score in each criterion being indicated by the weight attached to that score. Among ERDF partnerships in Western Scotland, such a system now allows proposals to be *ranked* relative to each other. However, weighting and scoring obviously does not take the politics out of resource allocation.

> Clearly, the idea of calculating a 'score' to judge the merits of competing projects risks giving a spurious objectivity to what is in reality a highly subjective judgement. The calculations depend upon the weightings applied to the various criteria - a process which is based on the subjective viewpoints of individuals... In actual fact, the whole scoring system is a means, not of assessing the worth of individual projects in a detached way, but of putting into practice the Commission's own objectives for the allocation of the ERDF (Croxford, Wise & Chalkley 1987: 33-34).

Section 6.1.1 of the Western Scotland CSF document specified that the designated authority with overall responsibility for implementing the CSF (i.e. the Scottish Office) should propose methods for defining, selecting and implementing the projects to be financed under the CSF to the Monitoring Committee. At the CSF/IDO Monitoring Committee meeting held in Glasgow early in the life of the programme in September 1990, a paper entitled 'Method and Procedures for Defining, selecting and Implementing Individual Actions or Projects' was presented. It was stated that the criteria used to establish the development priority options in the first instance should be reflected in the criteria used for the selection of individual ERDF and ESF projects. Each project must demonstrate that it meets these criteria in the following ways: by having identified aims and objectives which are compatible with, and contribute to, those of the CSF; and, by complementing the goals of the IDO to maximise where possible the linkages between the use of ERDF and ESF. In addition to the specified criteria, consideration should be given to the expenditure profiles set out in the CSF and IDO documents, the contribution the project could be expected to make to meeting the IDO targets; and, where appropriate, to the relative priority accorded to the project by the project sponsor. Projects should therefore be considered by the relevant working groups in line with these criteria.

In short, an attempt has been made to make project selection more technocratic. Each of the advisory groups now operates a project ranking system elaborated with the assistance of the Programme Executive. Although the European Commission approves the ranking system, it does not participate in the actual advisory group meetings.

7.6 Reprise and Summary

As the final chapter of the case study of Western Scotland, this chapter has considered the importance of project selection, the ultimate stage in the ERDF programming process there. The key argument made in this chapter is that the original programme document constitutes only a very *incomplete* agreement. The actual process of resource allocation at the regional level can not be tackled in the original contract, as the partners are not aware at the time of drawing up the programme the nature of the projects that will be submitted by project sponsors several years into the programme. This leaves considerable discretion at the regional level in interpreting the nature of the original agreement. It has been shown herein that central government uses this flexibility to re-direct the shape of the programme, after the initial agreement, away from expenditure priorities it opposes to those it favours. Consequently, the European Commission, seeking to limit this discretion, now insists on the development of transparent selection strategies.

The thrust of the European Commission's approach to programming and partnership is that it is not a sign of success simply to spend the money allocated to a region. Rather, the Commission seeks a strategic approach to resource allocation within the region, in that the partnership should prepare and implement a 'rational development strategy' maximising the output of the programme in economic development terms. The Commission's own 'mid-term review' of structural policies maintained that the multi-annual planning technique was designed to induce the partners to adopt a 'strategic approach, resulting in greater selectiveness and coherence in the measures part-financed by the Community' (1992a: 24). By the Commission's own standards, however, 'this shift has not yet yielded the expected results' (ibid.: 24). The Commission rehearsed its usual complaint that the programmes prepared by the partnerships did not pay sufficient attention to the quantification of the objectives to be achieved. Consequently, at the project selection stage, resource allocation is driven primarily by what is eligible 'and is influenced by an *a priori* allocation of resources among financial instruments, instead of being focused on designing programmes made up of mutually-supporting measures defined in relation to specific objectives' (ibid.: 24).

Such findings have also been substantiated by academic accounts of the resource allocation process at the regional level:

> When the focus of analysis is sharpened to see what is happening *within* the assisted areas, it becomes clear that much ERDF expenditure has been essentially '*ad hoc*' and haphazard in nature. Grants have gone to individual, often totally unconnected projects in a way which reflects varying levels of initiative and resources at local level rather than any coherent strategies of regional development (Wise & Croxford 1988: 169).

This seemingly erratic style of resource allocation is not surprising if, as Keating has suggested, 'development policy is not a rational, goal-oriented activity but a political process in which diverse goals compete and outcomes are complex and unique to localities' (forthcoming). Nevertheless, the European Commission has sought to impose some 'rationality' in the allocation of resources. To this extent, DG XVI desk-officers 'have been drawn into the role of being the guardian of the rules rather than a partner in joint negotiations ... The difficulties arise because of the assumption that rules will provide certainty about what is or is not acceptable' (Tavistock Institute of Human Relations 1991: 15).

The final chapter of this thesis emphasises the applicability of the model of policy implementation as incomplete contracting to the case of ERDF programmes in Western Scotland. More importantly, it draws attention to the analytical insights provided by the model. This chapter has shown the relevance of the *incompleteness* of the incomplete contract. The flexibility necessarily built into the original agreement means that the final shape of the programme is malleable at numerous points, right up to the final selection of individual projects. From the perspective of the European Commission, it is therefore essential to align the incentives of actors in the region to respect the original terms of the contract. It has been suggested in this chapter that the promotion of a professional, technocratic approach to project selection is one way in which the Commission tries to ensure such motivation. In the conclusions which follow, some attention is paid to the wider means by which the European Commission can try 'to make the partnership principle work', thus shaping the final output of the programme in the process.

Chapter 8. Conclusions: Policy Implementation as Incomplete Contracting

As stated at the outset, the primary aim of this study has been to develop a model of policy implementation that illuminates the complexity of the ERDF partnership process and facilitates analysis of the role of the European Commission in implementation in this policy field. It is suggested that the model of policy implementation as incomplete contracting elaborated in chapter 2 provides a useful addition to the implementation studies literature. While chapters 3 and 4 analyse the evolution of the ERDF to assess the extent to which changes in the Regulations at the European level provided the European Commission with the tools to engage in direct exchanges with sub-national actors, the case study of Western Scotland employs the incomplete contracting model to analyse the nature of that exchange for a specific region. It is of course a truism that models in the field of policy analysis are themselves only ever incomplete. To repeat Rhodes' observation, 'models in the social sciences are never wholly satisfactory. They are more or less useful' (1980: 312). It is obviously not suggested that the model developed in this thesis is unique in illuminating and explaining the complexity of the ERDF partnership process. Nevertheless, the concluding pages of this study are devoted to highlighting the extent to which the model of policy implementation as incomplete contracting is a useful addition to the literature. What are the key features of the exchange relationship between the European Commission and domestic actors that are illuminated by the model?

This concluding chapter begins with a reminder of the importance attached to the Structural Funds at the European level itself. As the Funds have increased in size at the same time as the European Commission has progressively succeeded in re-directing their role away from a purely compensatory function to the task of economic development, so the effectiveness of Community intervention has increasingly been scrutinised. This 'effectiveness' is considered in **Section 8.1**. As well as seeking a concentration of resources on the most seriously disadvantaged regions, however, recent changes in the Structural Fund Regulations have also sought to increase the effectiveness of implementation arrangements in the regions themselves. Until now, there have been very few in-depth analyses of the nature of these arrangements for any specific region. The strengths of the model developed herein for this purpose are highlighted in **Section 8.2**. In short, this section demonstrates both the empirical 'fit' of the model, and its analytical value. The conclusions are then broadened out in **Section 8.3** which considers some general implications of this analysis for the implementation structures set up under the principle of partnership at the regional level. The study closes with some concluding remarks on the potential lessons of the incomplete contracting model for students of the wider EC policy-making process. Given the open-ended character of much of the Community's legislation, agreements reached at the European level in other policy sectors may usefully be modelled as incomplete contracts between the European Commission and actors within the member states. It is with the 'effectiveness' of EC regional policy, however, that this chapter begins.

8.1 The 'Effectiveness' of EC Regional Policy

The seemingly inexorable growth of the Structural Funds budget, and hence the relative importance of structural spending among European policies involving direct expenditure, were noted in the introductory chapter of this study. The reasons for this growth, whereby the Structural Funds will take up around a third of the total EU budget by 1999, lie in the logic of the *horizontal* negotiations between member states at the European level (McAleavey 1994). The logic of budgetary expansion has not been a focus of this study. However, as the size of the resources at the European Commission's disposal in this field have increased, so attention to the 'effectiveness' of such spending has intensified. Those member states which are net contributors to the budget (located primarily in northern Europe) increasingly call for evidence of the impact, and success, of structural spending in recipient member states (located primarily in southern Europe). As is widely acknowledged by policy analysts, however, the criteria of 'success' and 'failure' for most policies are notoriously vague and elusive (Lewis 1984). The concept of policy success can only be measured against objectives, but against *whose* objectives?

Pressman and Wildavsky (1973) taught an earlier generation of implementation researchers to reduce their expectations of policy performance. As suggested in chapter 2, Bardach perhaps took this pessimism to the extreme when he noted that 'even the most robust policy - one that is well designed to survive the implementation process - will go awry. The classic symptoms of underperformance, delay, and escalating costs are bound to appear' (1977: 5). In the case of the Structural Funds, the European Commission currently faces the fundamental problem of 'absorption' in several southern member states. As the sheer volume of resources has increased, the capacity of these member states simply to spend the money (irrespective of the subjective quality of development schemes) has been pushed to the limit. This problem was recognised in a key Commission document on Community expenditure:

> All in all, structural operations accounted for 27% of the Community budget in 1992 compared with 17% in 1987. Contrary to one of the main fears voiced at the time of the 1988 reform, practically all the appropriations available for the 1989-91 period have been taken up.

> The outlook for 1992-93 is promising. This proves that the partnership built up with the regions and Member States is a method that works (European Commission 1992c: 9).

Does the simple ability to spend available resources really indicate that partnership is 'a method that works'? Were it sufficient merely to spend the money, direct financial transfers between member state exchequers would provide a more efficient solution with reduced transaction costs. As suggested in chapter 3, this may indeed have been a more efficient (if controversial) solution to the issue of net budget contributions in the early 1970s. Derthick has suggested, however, that the real objectives of a given policy, and the premises upon which it is based, may avoid scrutiny as long as the nature of the policy itself is 'ambiguous, inconsistent, obscure and paradoxical' (quoted in Bolderson 1982: 289-301). To use the language of the garbage can model developed by Cohen, March and Olsen (1972; 1976), the 'choice situation' may include policy choices which appeal simultaneously to politicians across the political spectrum and/or public officials from a variety of organisations.

In the case of Western Scotland, expenditure allocated to the region has generally been spent, with the exception of the earliest ERDF programme, (the Glasgow NPCI) which registered a large underspend. The utilisation of available resources certainly constitutes an element of 'success' for all the participants: central government has managed to 'draw down' the maximum possible level of ERDF finances for the region to the benefit of the Treasury; local partners have generally been able to secure a share of this expenditure, their ultimate reason for participating in the exchange; and, the European Commission has succeeded in spending its budget for the region. However, this 'successful outcome' need not necessarily bear any relation to the stated objectives of the regional development programme. Then again, as emphasised throughout this study, it can be argued that the stated objectives of the programme were (at least in the early years of the Fund) simply a screen behind which the true objective of budgetary compensation could be pursued. As Coates and Wallace (1984) concluded in their discussion of how European funds are spent in the UK, there may be no single judgement that can be offered about success: execution may be efficient, but so long as the wider purposes of the funds remain controversial or obscure there will be conflicting judgements about their effectiveness.

As shown in the empirical analysis presented herein, this ambiguity of policy objectives is a recipe for incremental policy development. The ERDF has gradually been focused more convincingly on its stated development objective, but only in a highly piecemeal fashion. Paraphrasing March and Olsen (1976), it was shown in Chapter 3 that DG XVI has sought to move the policy in its own desired direction, away from a purely compensatory role to a development fund assisting small business competitiveness in disadvantaged regions. To this extent, DG XVI's actions support the claim that the European Commission often operates as a 'policy entrepreneur', seeking 'windows of opportunity' through which to push preferred ideas and policy options (Majone 1994; cf. Eichener 1992; Dehousse & Majone 1993; Deeken 1994). However, as the ERDF is increasingly accepted as a tool for economic development, it is also now evaluated as such.[1] The Regulations governing the implementation of the ERDF reaffirm the statement in Article 130A of the Single European Act, that through the funds, the 'Community shall aim at reducing disparities between the various regions and the backwardness of the least favoured regions'. At the most simplistic level, the ERDF has failed in this task.

In general terms, as the size of the Structural Funds budget has increased, regional disparities have widened, although this is obviously not to suggest that there is some causal link at work. Trends in regional disparities are extremely difficult to interpret[2], not simply because successive enlargements of the EU have brought in new member states with differing regional economic profiles to existing members. Simplifying the picture greatly, the European Commission's own analysis suggests that there was a slight increase in regional disparities in terms of income (per capita GDP) in the Community in the early 1980s. The *Fourth Periodic Report on the Social and Economic Situation and Development of the Regions of the Community* in 1991 also found that these disparities remained roughly constant through the later 1980s. The same decade saw a pronounced widening of disparities in levels of employment in various parts of the Community as the spatial effect of the decline in manufacturing industry became apparent (European Commission 1991e). One widely cited fact is that regional disparities in income per head in the European Community remain at least twice those in the USA (House of Lords 1992: 7). The *Fifth Periodic Report on the Social and Economic Situation and Development of the Regions of the Community* published in 1994 began by stating that 'the economic situation confronting the regions

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[1] One Commission official at a Conference of the European Regions of Industrial Technology (RETI) in Florence on 22 September 1994 urged delegates to provide information with which the Commission could show the success of Structural Fund Programmes: 'I think that the Commission, the member states, the regions and local participants in the effort must be able to demonstrate in respect of pre-determined, quantitative objectives the quality of the programmes. We have to ensure quality and we have to prove it. *We need to be able to show that the cohesion effort is more than just the result of a political deal and more than just an act of faith* ... Let us know more also in Brussels about your success stories ... Send us slides and photographs, send us diskettes, send us anything you like which we can use to show to the eternal sceptics that *this work is not only politically necessary but economically useful*'.

[2] Some controversy exists in the analysis of trends in regional disparities in western Europe over recent decades. Leonardi finds evidence of 'constant and significant convergence in levels of economic and social cohesion in the Community and within nation states during the last 40 years' (1993: 492). Hooghe and Keating, however, convincingly argue that Leonardi's methodology is very much open to challenge and cite a range of more sophisticated analyses which show the complexity of the true picture (1994: 388-389). The European Commission's own analysis of trends in regional disparities does not support Leonardi's interpretation.

of the Community in 1993/94 could scarcely be more different from that which prevailed when the Commission produced the previous Periodic Report at the end of 1990' (European Commission 1994a: 9). By the mid-1990s, the Community's economy was at the end of a relatively deep recession, and disparities in regional unemployment rates had widened further. At the same time, a new set of challenges (including the prospect of economic and monetary union, further enlargement of the EU, and new trading relationships with the states of Eastern Europe) seemed likely to increase the pressure yet further on weaker regional economies.

The drive towards economic and monetary union (EMU) in particular indicates the secondary role of regional policy in the EC. EMU will not be achieved, or will not be sustainable, in the absence of a real convergence between the member states in terms of national budgetary deficits and price inflation. In the broad policy agenda of the Community, the cohesion effort, in the sense of achieving 'an acceptable degree of real disparities' as indicated by regional GDP per head or unemployment levels, is a related but secondary concern (House of Lords 1992: 7). Since the earliest days of the Fund, DG XVI has acknowledged the role of the ERDF as an 'accompanying measure', a tool to soften the regional impact of the main EC policies rather than the leading edge of a wider policy aimed at balanced regional growth across the Community. The first annual report on the ERDF insisted that 'the correction of regional disparities requires that regional policy should be seen as the geographically-oriented element in an overall structural policy requiring the co-ordination of all Community general and sector policies and financial instruments, which should in their turn be closely coordinated with national policies and measures affecting the regions' (European Commission 1976a: 25-26). It is debatable whether the objective of balanced regional development has been recognised as the central task of the ERDF itself, let alone as a key objective of the wide range of EC policies. As well as insisting that the ERDF did not constitute EC regional policy on its own, the first annual report also emphasised that its small size meant that it would have little impact on regional disparities:

> It must be stressed at the outset that the European Regional Development Fund is not to be confused with Community regional policy. It is but one instrument of that policy, though, for the present at least, one of the most important. The Fund alone, especially at its present size, cannot bring about the structural changes necessary to bring the regional imbalances in the Community within acceptable limits (European Commission 1976a: 5).

However, how large would the budget need to be to bring disparities 'within acceptable limits'? More importantly, how are 'acceptable limits' of inequality determined within a political community? After looking for lessons in the literature of 'fiscal federalism', one official from DG II (Economic and Financial Affairs) has concluded that 'specific intervention to promote inter-regional equity is a recurrent bone of contention in most if not all economic unions since its scale and distribution are largely matters of political choice' (Reichenbach 1994: 206). Against this backdrop, assessments of the effectiveness of Community regional policy are difficult to approach. When faced with scepticism over the results of structural intervention, the European Commission can always resort to the untestable assertion that, in the absence of Structural Fund support, inter-regional disparities would have been even worse.

Given the difficulty of demonstrating the 'effectiveness' of the ERDF and the Structural Funds in general, many authors have questioned the rationale of European Commission involvement in regional economic development policy. The first report of the House of Lords Select Committee on the European Communities dealing with the ERDF explored this question, pointing in particular to the importance of Commission involvement on cross-border schemes (1977: 16). Pinder points to competition between regions for mobile growth, therefore identifying a need for policy harmonisation at the European level to prevent competitive out-bidding for investment (1983: 74). Armstrong provides a detailed analysis of the assignment of regional policy powers in the Community and concludes that several criteria (including 'democratic control') favour member state control, while various 'spillover criteria', financial transfer and co-ordination criteria all favour Commission involvement (1983; cf. Vanhove & Klaassen 1987: 394-401). The debate is not considered in this study. Rather, it is simply acknowledged that the ERDF began its life as a political compromise. Derthick's suggestion that the greater the number of objectives pursued, the less likely a policy is to come under severe scrutiny in terms of its stated objectives, has been supported herein. The ERDF's initial task of budgetary redistribution, which remains important, guarantees its existence in the gambit of European policies. As suggested throughout this study, however, the European Commission has sought to carve out a role in regional economic development behind the seemingly intergovernmental screen.

The European Commission has consistently stressed the long-term nature of the problems facing regional economies, and hence the need for related policies to be conceived in a similarly long-term perspective (European Commission 1991e: 15). The aim of the reform of the Structural Funds was not just to concentrate the actions of the Funds on a limited number of priority objectives, but also '*to establish a new approach to implementation and management*' (ibid.: 53). This latter may also be a necessarily long-term process. And yet, the European Commission has sought to guide the implementation of programmes. The model developed to consider the extent to which the European Commission has been successful in this respect, and the broader findings of the research project on Commission involvement at the regional level, should now be summarised.

8.2 The Model of Implementation as Incomplete Contracting

As suggested in chapter 2, implementation research could benefit from some additional 'assistance in rendering theoretically sensible the important issues that are the subjects of investigation' (O'Toole 1993: 28). This is not to imply that implementation research as it stands is fatally flawed, or that analysis hitherto has been superficial. On the contrary, both top-down and bottom-up approaches have provided key insights into the nature of the implementation process in contemporary polities. The inevitability of policy adaptation and change through implementation is now widely accepted by policy analysts, irrespective of whether this change derives from the inability of top-level actors to structure tightly enough the implementation process, or from the unavoidable discretion enjoyed by local level actors whose interests are not necessarily aligned with those of top-level actors. Nevertheless, the persistence of top-down and bottom-up differences between analysts has contributed to the loss of momentum sustained by implementation research in recent years (Goggin, Bowman, Lester & O'Toole 1990). In the case of European Community policy-making and implementation, the dramatic increase in legislation at the European level has not been matched by a corresponding focus in the field of policy analysis on the difficulties of implementing European policies, despite the obvious problems of control faced by the European Commission in this respect. The model developed herein aims to build on the complementary insights of both the top-down and bottom-up approaches and provide a conceptual framework wherein the key concerns of each approach can be integrated.

In the model of policy implementation as incomplete contracting developed in this thesis, the primary methodological innovation is a shift in the unit of analysis. Under the top-down approach to policy implementation, the main focus of analysis is on the ex-ante *legal and political structuring* of the implementation process by top-level actors. When a policy decision is under preparation, how clearly are its objectives stated? Is the policy based upon an accurate causal theory? How can the compliance of implementing officials and target groups be enhanced by legal means? Under the bottom-up approach, the main focus of analysis is on the ex-post *motivations* of local-level actors, given the inevitable discretion such actors enjoy in executing policy decisions. In the framework developed herein, the starting point is the adoption of an exchange-based conceptualisation of power. Given the discretion enjoyed by lower-level actors in situations of multi-organisational policy-making, and the undisputed access of higher-level actors to greater political resources, the relationship between participants in the policy field is conceptualised as an exchange. Under such a relationship, the actors at the higher territorial level allow lower-level actors to influence 'public decisional' and implementation processes, in exchange for the latter's consent to the former (Parri 1989; 1990). Under the incomplete contracting model of policy implementation, the main focus of analysis becomes the *exchange* between the various actors involved in the relationship.

One immediate conceptual advantage of the incomplete contracting model is that it does not make the assumption that either the ex-ante phase of preparing a policy decision, or the ex-post phase of executing that policy decision should be given greater analytical attention than the other. Rather, the exchange relationship between actors covers both the ex-ante preparation and ex-post execution phases. The contracting approach of Oliver Williamson teaches that co-ordination and motivation are mutually important tasks under any form of economic organisation. Given that the information required to determine the best use of scarce resources is highly localised and dispersed, the actions of various actors must be co-ordinated to form a coherent contract. However, plans are not self-executing and require that all actors must be motivated in accordance with the terms of the contract. Bargaining cannot be concentrated in either the ex-ante phase (as top-down approaches often suggest), or in the ex-post phase (as bottom-up approaches suggest), but is a continuing feature of the entire exchange relationship. In this way, the model of incomplete contracting provides a valuable conceptual tool by which to integrate the temporal foci of both top-down and bottom-up approaches.

In the conceptual language developed in chapter 2, any exchange relationship is governed by a contract. This contract need not be an explicit legal document, but may simply involve the implicit recognition by participants in an exchange relationship that the relationship is somehow in their interests, and hence that their behaviour can be co-ordinated in ways that are mutually beneficial (Milgrom & Roberts 1992: 127). It was suggested in the empirical analysis presented above that the actors in the ERDF policy implementation process have voluntarily entered into such a relationship, which in this specific instance is governed by a written contract in the shape of a regional development programme. In conceptual terms, however, what is it about the exchange between the actors that is relevant to implementation analysis? Three key elements of the exchange were sketched as central to the analytical model of policy implementation as incomplete contracting: the level of *complexity and uncertainty* of what performance will be required; the *asset specificity* of the resources brought to the exchange by each participant; and the *frequency* of the exchanges or the *duration* of the exchange relationship. Each of these, and the questions they highlight, should be summarised in turn.

(i) *Complexity and Uncertainty* The complexity of designing agreements to achieve economic and/or political aims, combined with the uncertainty about the conditions that will prevail when a contract is being executed make it impossible, or at best extremely expensive, to determine ex-ante what should be done in every possible contingency (Milgrom & Roberts 1992: 32). This problem derives from the *bounded rationality* of real actors: policy makers are not omniscient. To repeat Majone and Wildavsky's suggestion, implementation can never spring be pre-programmed and so something must be left to chance (1979). Instead of incurring the expense of seeking to draw up a complete contract, pre-programmed for all eventualities, participants in an exchange relationship may settle for a *relational contract*. Such contracts essentially represent an agreement that frames the entire relationship. Broad goals and objectives are agreed, rather than detailed plans of action. Rather than contemplating what to do under every contingency, the contract stipulates only the criteria to be used in deciding what to do should unforeseen contingencies arise, as well as the mechanisms for resolving disputes should any occur. In general terms, the level of complexity and uncertainty illustrate the extent to which contracts can only ever be incomplete. The model of policy implementation as incomplete contracting therefore prescribes a focus on the level of complexity inherent in, and the level of uncertainty surrounding, any exchange.

The complexity of aligning the interests and actions of a multiplicity of actors in the preparation of a regional development programme was shown in the case of Western Scotland. Each partner, with its own decision-making procedures and strategic priorities, is committed to a regional development contract which seeks to operate in the interests of all 140 or so participants. Simultaneously, the contract must be flexible enough to respond to unfolding economic circumstances. As a result, the actors in Western Scotland have entered into a relational contract which specifies the broad goals they are seeking to achieve to their mutual benefit, but leaves some flexibility in the choice of measures to reach these goals. The model therefore focuses on the extent to which flexible procedures are built into the contract at the ex-ante stage, and how each participant seeks to influence those procedures. It also focuses on the 'rules of the game' set out under such procedures, to assess who is given the task of deciding what to do should the original contract require amendment.

(ii) *Asset Specificity* Another dimension of the exchange highlighted by the model of incomplete contracting is the extent to which the resources brought to the exchange by individual actors are specific to that exchange. As Williamson suggests, 'specialized assets cannot be redeployed without sacrifice of productive value if contracts should be interrupted or prematurely terminated', while general purpose resources do not pose the same difficulties (1985: 54). This observation highlights a number of aspects of the exchange which are relevant to the incomplete contracting model of implementation. Most simply, what are the resources brought to the exchange by each partner? These can take the form of physical assets (such as buildings and technical support), locational assets (such as information on local economic circumstances), or human assets (such as knowledge, expertise and experience). The extent to which these assets are specific to the exchange (i.e. they cannot be redeployed elsewhere) is of great significance. The higher the level of asset specificity of a resource, the greater the likelihood that the actor providing that resource will seek to frame a contract that guarantees some return to investment.

In the case of ERDF programme implementation in Western Scotland, each partner has been required to increase the level of officials' expertise in the programming process in recent years as the complexity of that process has risen. In many ways, this asset is specific to the Structural Funds given the lack of domestic economic development planning in the UK. The creation of specific posts within local organisations with the sole task of increasing the share of Structural Fund assistance attracted to that organisation is an example of asset specific investment that at first sight seems likely to increase the pursuit of an organisational rationale by that actor within the implementation structure. As suggested in the following section, however, the creation of a corps of professionals engaged in the implementation of the programme may indirectly shape the motivations of the local partnership in the direction of the programme rationale.

From the European Commission's perspective, the most significant resources brought to the exchange by local actors are the provision of the local economic data required to prepare a co-ordinated development programme for the region, and the supply of local projects which the European Commission wishes to co-finance within the framework of that programme. As shown for Western Scotland, the European Commission (and central government) was dependent upon Strathclyde Regional Council bringing forward sufficient numbers of eligible projects between 1975 and the early 1990s so that the ERDF budget for the region could be spent ('drawn down'). The extent to which the European Commission could turn to other major actors in the region to provide such project proposals was limited: those actors which did exist did not have the resources required to bring forward the required number of suitable projects. With the creation of Scottish Enterprise, however, the European Commission's dependence on the Regional Council was relaxed to the extent that it could then turn to the Enterprise Network as a major partner providing projects which the Commission was willing to co-finance.

(iii) *Frequency and Duration of Exchanges* The frequency and duration of an exchange are further crucial dimensions, not sufficiently emphasised in other approaches to the study of policy implementation. In one-off agreements, partners to the exchange are unlikely to design separate contractual arrangements to govern the relationship. Any disputes can simply be resolved by legal means. However, when partners interact frequently, or the exchange lasts for a significant period of time, it is more likely that some form of contractual arrangement will be designed specific to that relationship. When asset specificity is high, the continuation of the relationship itself is valued by participants. Special purpose institutions, tailored to the particular requirements of the relationship, may thus emerge to improve the efficiency of the exchange and reduce the costs of resolving disputes. More importantly, parties involved in a long relationship with frequent interactions can develop understandings and routines to reduce the need for explicit contracting arrangements (Milgrom & Roberts 1992: 31). In this way, the model of incomplete contracting highlights the extent to which a sense of trust, mutual commitments and shared values can develop through the contracting relationship.

In the case of Western Scotland, the Strathclyde IDO Programme Executive was identified as a special purpose institution that has facilitated the programming of ERDF expenditure in the region. As a nominally 'independent' actor, which does not itself spend ERDF finances, the Executive has earned the trust of the partnership over the six years in which it has been in existence. The Executive stands at the centre of an emerging community of expertise in the use of Community funds in Western Scotland. As this level of trust and expertise increases (founded largely on the basis of the perceived independence of the Executive), so the burden of the ex-ante programming procedure may be reduced as the Commission requires only a looser specification of proposed actions. However, as shown in chapter 6, as central government seeks to re-centralise control over programme management through the new 'Joint Management Board' supervising the Executive, so the trust generated by the Executive will gradually be eroded. As the perceived independence of the body is compromised, so the local actors will become less willing to place their trust in the Executive.

Together, these questions of asset specificity, complexity/uncertainty, and frequency/duration highlight the key dimensions of the exchange. The incomplete contracting model thereby illuminates the nature of the exchange relationship created under the regional implementation structure. As well as focusing on formal characteristics of the structure (such as the broad rules of the game, the resources provided by individual actors, and ex-ante attempts to try to ensure compliance), the model also highlights the motivations of local actors, the possibility of opportunistic behaviour, and the importance of the interactions of those actually involved in policy execution at the local level. In this way, the model provides a conceptual framework within which the valuable and complementary insights of both the top-down and the bottom-up approaches can be integrated.

A wider question highlighted by the model of policy implementation as incomplete contracting is the nature of the governance structures created to ensure the execution of the contract. In other words, what is the nature of the implementation structure? How does that structure seek to provide flexibility to respond to unfolding economic circumstances, but, at the same time facilitate the monitoring of actions to ensure conformity with the terms of the contract? In addition, the asset specificity of resources brought to the exchange by partners will shape their attitude to participation, while the frequency and duration of the exchange will shape the extent to which trust has been built into the institutional arrangements. Adopting the European Commission perspective (in contrast to the vast majority of contemporary analyses of the Structural Funds), this study has sought to answer the following central research question: what is the nature of the governance structures that the European Commission has been able to fashion at the regional level in its attempt to shape the implementation of the incomplete contract over the course of the programme in order to pursue its own objectives?

The incomplete contracting model developed in chapter 2 and summarised above provides a useful means by which to answer this central research question. As highlighted by the model, *the ability to shape the ex-ante preparation of a contract must be accompanied by the capacity to shape the incentives and motivations of lower-level actors in the ex-post bargaining process*. The contention that the shift over time in the use of ERDF resources away from projects supporting capital-financed hardware, towards projects supporting revenue-financed software (long resisted by central government in the UK) indicates the increasing capacity of the European Commission to shape the overall priorities of the development programme, is supported by the data presented on the case of Western Scotland. However, it has also been shown that discretion is inevitable given the impossibility (and undesirability) of preparing a 'complete contract'; hence, central government in the UK is able to use this flexibility to re-direct expenditure after the approval of the programme back towards hardware measures (as shown in chapter 7). This supports both the contention that the final shape of the EC-funded regional development 'contract' is malleable at a multitude of points, and that the European Commission enjoys relatively greater *direct* discretion in preparing the contract than in ensuring its priorities are respected. The means by which the European Commission can seek to shape *indirectly* the ex-post implementation of the contract are summarised in the following section 8.3.

The model developed herein also highlights other key data from the case study of Western Scotland to support several of the working hypotheses sketched in the introductory chapter. The working hypothesis that the European Commission is highly constrained in its ability to prepare regional development programmes on its own is clearly supported in the case study. Following from this, the technocratic importance of the partnership principle to the European Commission in its aim to prepare co-ordinated regional programmes focused on economic development (rather than budgetary redistribution between member states, or regional political mobilisation within member states) has also been demonstrated. The increased number of participants in the programming procedure has clearly introduced a wider range of organisational objectives into the implementation structure at the regional level. Most obviously, the recent participation of Scottish Enterprise has increased the supply of software schemes at the local level, facilitating the Commission's objective of reducing the share of expenditure devoted to infrastructure, but also increasing the competition for funds among the partnership. The extent to which the European Commission is able to shape indirectly the motivations of local actors and hence reduce the likelihood of ex-post opportunism is the focus of the following section.

8.3 Making the Partnership Principle Work

This section presents some general normative conclusions on what might be done to ensure that the partnership principle operates more effectively. The words 'more effectively' should not, however, set alarm bells ringing in the mind of the reader. It is accepted that economic development is an inherently untidy process of political choices, and indeed, it is argued throughout this thesis that the objectives of such policy are of a highly ambiguous nature. Paraphrasing Lindblom, the *politics* of European regional development policy are not for curing. At this late stage, the study does not fall into the trap of believing that every problem has a solution. As stressed in the introductory chapter, this thesis constitutes first and foremost an *analysis of* policy, rather than an *analysis for* policy. Nevertheless, it behoves such an in-depth study of implementation as this is to use the tools of policy analysis to venture some indications of the way in which the regional partnerships might evolve. This section seeks to make such recommendations without resorting to dry, technocratic analysis with little recognition of the fundamentally political environment of European regional development policy.

The obvious question to raise at this point is to ask *for whom* the partnership principle should be made to work more effectively? In other words, if the partners at the regional level bring a range of distinct political and organisational objectives to the partnership fora, as has been argued above, then 'more effective' performance of the partnership may have different implications for each partner. In line with the perspective adopted throughout this study, these prescriptive conclusions are presented from the European Commission's viewpoint. For DG XVI, the success of an Objective 2 regional development programme should ultimately be measured in the economic terms of a decline in unemployment in the region as new, stable jobs are created, *and* the broader development of a diversified regional economy with strengths in innovative and competitive economic sectors. In organisational terms, at a minimum the European Commission requires that the multiplicity of actors involved in the implementation of the regional development programme must have contributed to the development of a co-ordinated strategy, and that their participation in the implementation structure is guided by a programme rationale while organisational objectives are secondary. How can the European Commission encourage the development of such an implementation structure?

It should be stressed that the strategies open to the European Commission in developing the partnership principle are primarily *indirect* and *informal*. The principle, as set out in the Regulations, leaves a great deal of discretion in the hands of the relevant member state to determine how the partnerships should be organised. As stressed in earlier chapters, the European Commission cannot change the legal or administrative structures of the member states. More importantly, it has been shown herein, from statements of the European Commissioner responsible for regional policy to the DG XVI internal handbook for desk-officers, that the European Commission has no desire to change such structures. Rather, as the Commission wants to build a sense of partnership with regional actors, it seeks to avoid legal remedies that might jeopardise working relationships. The European Commission therefore simply works with the administrative structures it finds within member states, but seeks indirectly to change the *behaviour* of the regional actors within them. From the Commission perspective, making the partnership principle work effectively can be viewed as a typical principal-agent problem. According to principal-agent theory, political control can be facilitated if political principals have the freedom to select their agents and impose an incentive structure on their behaviour. Although the European Commission has only a limited capacity to select its own agents (given the asset specificity of the resources brought to the exchange by key local actors), it clearly seeks to shape the incentives of those actors. In other words, the Commission identifies ways in which to motivate the partners in line with the terms of the contract.

Although difficult to conceptualise in social scientific terms, virtually all interviewees identified the *human dimension* as extremely important in the effective implementation of regional development programmes. The programme manager of the Dutch South Limburg ERDF development programme has argued particularly forcefully that any programme should take the form of a development contract between a wide range of authorities, but that promotion of the programme is necessary to remind the partners of their obligations as well as the opportunities of the programme. Consequently, although a coherent programme, ample resources, and professional guidance are all important, the key requirement is an adequate level of human skills:

> A good working relationship with Brussels as well as with the national government agencies involved [influences effectiveness]. We need formal structures - where none existed originally - but these depend on **people**. It is important to have the right people involved' ... 'the Programme management role is important. Ideally we need a 'workaholic', an enthusiastic programme leader supported by politicians. The human aspects are very important. The programme needs human skills [emphasis in original] (Broos 1991: paras. 5b; 5e).

The 'human dimension' of partnership is one factor that the European Commission can influence indirectly. This can be conceptualised not just in the technocratic sense of promoting expertise, but also as the evolution of *reputation* effects and *trust*. Toonen's general contention that it is sometimes easier to adopt Community procedures in the absence of a standing policy organisation (1992: 109) can be falsified in the case of ERDF programme implementation in the UK, as it does not recognise the fact that pre-existing structures and working relationships may facilitate trust between domestic actors.

Trust is of crucial importance in developing an effective partnership procedure. As Mutti has suggested, 'the irreducible existence of uncertainty, ambiguity and interpretative manipulation in the rules of political exchange', can only in part be contained by greater ex-ante specification and formalisation (1990: 201). In other words, truly effective complete contracts are virtually impossible to prepare. However, as suggested in chapter 2 above, the existence of trust 'makes it unnecessary to resort to excessive formalization and detailed specification of the rules of the exchange', and 'therefore makes the entire process of political exchange potentially more elastic, dynamic and wider' (ibid.: 210). Mutti provides a wide-ranging definition and account of the role of trust in political exchange relationships, but it is the work of Milgrom and Roberts which is again particularly useful in this respect. They use the language of contracting to suggest that an important adjunct to incomplete written contracts are 'the unarticulated but (presumably) shared expectations that the parties have concerning the relationship' (1992: 132). These shared expectations can be understood as *implicit* contracts, and the authors give the example of corporate culture as an illustration of the extent to which shared and commonly understood expectations can economise on bounded rationality and contracting costs. Corporate culture, understood as 'a shared set of values, ways of thinking, and beliefs about how things should be done', is not normally captured in a written document or even stated orally, yet it can be a powerful guide to determining the action to take under unexpected contingencies (1992: 132). How can such a sense of shared values be instilled among the regional partnerships implementing ERDF development programmes?

It should again be stressed that a co-operative culture of problem-solving cannot be enforced legally. On the contrary, recourse to legal remedies might cause a severe deterioration in the contracting relationship. This point has been emphasised by Majone, who also stresses the importance of trust in facilitating co-operation, simplifying transactions and tapping the resources of knowledge and experience accumulated by other actors: trust, and the reputation system upon which trust is based, are essential to sustaining co-operation in a world of self-interested individuals, and 'for governing contractual relations more complex than simple spot-market transactions' (1995: 1). The costs of organising, implementing and monitoring collective decisions are greatly increased if the parties to the agreement do not trust each other, but 'unfortunately, the current debate on this issue tends to be legalistic, and seems to assume that trust can be elicited by preaching or imposed by judicial fiat' (ibid.: 2). On the contrary, 'mutual trust and credible commitments cannot be achieved by ... legal obligations, but only by changing the motivations of all the relevant actors' (ibid.: 18). The European Commission should seek to shape these dimensions of the contract.

Trust is vital for a system as complex as the regional partnerships implementing ERDF programmes. The contracts themselves call for a recognition of the common purpose of the partners, and the repeated references by interviewees and in official documents to the importance of common ownership of the programme emphasise the importance of shared values. The Commission can seek to promote this trust in three indirect, but closely inter-related ways: through the assurance of continuity over time; by supporting the political independence of key implementing bodies; and through the promotion of professional networking schemes. These should be considered in turn.

(i) *Continuity over Time* The importance of the frequency and duration of the exchange relationship is a key dimension of the model of incomplete contracting developed in this study. The allocation of Structural Fund resources at the regional level is not simply a one-shot, zero-sum game in which the incentives for partners to co-operate are minimal. On the contrary, decisions form part of an inter-related set of decisions taken by the partnership which are repeated over time. The importance of *iteration* in allowing co-operation to emerge is a noted feature of the game theoretic literature: 'the evolution of co-operation requires that individuals have a sufficiently large chance to meet again so that they have a stake in their future interaction' (Axelrod 1984: 20). Were the Structural Fund resources for a five year period for a given region to be allocated in a one-off meeting of the partnership, not only would this be suboptimal in the sense that there would be very little flexibility to respond to unfolding circumstances, but there would also be little incentive for the partners to co-operate at such a meeting which could conceivably degenerate into a naked, value-claiming exercise with little reference to the goals of the contract. By contrast, regular partnership meetings take place over the course of a multi-annual development programme and, in the case of Western Scotland, a series of specialised working groups have evolved under the guidance of the Programme Executive. It should also be noted that the post of Programme Director has been held by the same official since the creation of the Executive in 1989, while the DG XVI desk-officer for the region has been in post since the negotiation of the Glasgow NPCI. From the European Commission perspective, this continuity should be encouraged. Maintaining the responsibility of a desk-officer over a number of years not only allows that official to build up considerable practical experience and detailed knowledge of the specified region, but also allows a sense of trust to evolve between the partnership and the geographically distant DG XVI in Brussels.

Milgrom and Roberts have emphasised the importance of time in the evolution of implicit contracts, such as trust and shared values. They suggest that under any system of relational contracting, governing the broad exchange relationship, implicit contracts 'set expectations and establish decision processes to deal with the inevitable unforeseen circumstances while avoiding some of the difficulties of writing explicit detailed contracts' (1992: 139). The longer the time horizon over which similar interactions will occur, the greater the incentive to build and maintain a positive reputation. In the case of Objective 2 programme partnerships, an actor's concern with reputation can be an effective check on opportunistic behaviour. Milgrom and Roberts would therefore prescribe that where an issue arises of which party should have the discretion to direct activities when unforeseen events occur, this should be the one 'with most to lose from a damaged reputation. This is likely to be the one with the longer horizon, the more visibility, the greater size, and the greater frequency of transactions' (1992: 140). Applying this prescription to the regional partnership in Western Scotland, the Programme Executive *should* be empowered to direct activities under such circumstances. This, however, is a prescription and not a prediction. Empirical analysis has shown that central government actually retains a great deal of control over the partnership, and is indeed increasing its direct supervision of the Executive's activities. Some of the implications of this re-centralisation can be considered under the following heading of political independence.

(ii) *Greater Political Independence* Majone (1993a; 1995) has considered the potential importance of 'political independence' in the realm of regulatory policy-making in the EC. The fear that national governments may use regulatory tools strategically, 'to pursue short-term political advantages rather than regulatory objectives is arguably the main source of mutual distrust and lack of policy credibility':

> The way out of this dilemma is to grant more independence to national ... regulators so that their commitment to a set of objectives decided at the European level is not compromised by domestic political considerations or by ministerial interference. Independence changes the motivation of regulators whose reputation now depends more on their ability to achieve the objectives assigned to their agencies than on their political skills. With independence, a problem-solving style of policy-making tends to replace the more traditional bargaining style (Majone 1995: 19-20).

This lesson from regulatory experience has some relevance for the case of ERDF implementation at the regional level examined in this study. The Programme Executive in Western Scotland endeavours to assure the partnership that its organisational aim is to promote the goals of the programme, thereby operating in the best interests of all participating actors. As suggested throughout this analysis, the Executive has been able to fulfil its tasks and gain the widespread trust of the partnership only because it has been seen as an independent body. Brunskill (1992: 14) identified some of the positive features of the 'working gap' in the Executive's accountability. However, the creation of the Joint Management Board at central government's instigation has been perceived as an attempt to re-establish control over the Executive and therefore endangers some of the trust built up by the body. In terms of facilitating policy-learning and developing a co-operative approach to programme implementation, the 'independence' of the Executive should be strengthened and not compromised. The broad significance of such special purpose institutions, tailored to the specific circumstances of the exchange relationship, is a key lesson of the contracting approach.

(iii) *Networking* The development of professional networks of policy implementers within the region, within the member state, and transnationally, potentially offers one of the most fruitful means by which the European Commission can indirectly strengthen the partnership principle and increase commitment to programme objectives. It can be shown empirically that the European Commission places great emphasis on professional networking in many policy sectors in an attempt to shape the incentive structure within which member state actors operate. Again drawing lessons from the realm of EC regulatory policies, Majone suggests that the European Commission should play a key role in facilitating and co-ordinating the work of EU regulatory networks of officials employed in the same policy area, since 'such regulatory networks serve a variety of useful functions, including the exchange of information and the comparative evaluation of new policy ideas and instruments' (1995: 22; Rose 1993). More importantly, however, such team work allows credibility to develop whereby the regulator has an incentive to maintain his or her reputation in the eyes of fellow regulators within the network.

Using the terms developed by March and Olsen in their 1989 study *Rediscovering Institutions*, the promotion of professional networking can be viewed as an attempt to shift the behaviour of institutional actors from the 'logic of consequentiality' to the 'logic of appropriateness'. In other words, the development of a professional community with its own norms of behaviour may facilitate the promotion of action based 'more on identifying the normatively appropriate behaviour than on calculating the return expected from alternative choices' (1989: 22). If the sense of a professional community of ERDF project sponsors and programme managers is developed at the regional level, then it is less likely that partners will shun co-operative behaviour in favour of post-contractual opportunism. Actions are more likely to be determined by what seems to be appropriate when partners are judged by peers who value professional contributions to programme objectives.

Directorate-General XVI of the European Commission has undertaken a number of initiatives to promote networks of programme managers and project sponsors involved in the implementation of ERDF schemes. Most obviously, at the regional level the partnership principle itself seeks to promote such co-operation. Also at the regional level, the availability of 'technical assistance' through the multi-annual programmes is partly designed to encourage regular technical seminars among the partners. At the member state level, DG XVI has on occasion invited all the UK Objective 2 partnerships to Brussels at the same time to participate in technical seminars there. Most interestingly, however, the European Commission is currently seeking to set up a regular course for programme managers from all eligible member states. In a press release in January 1994, the European Commission announced a training programme for managers of Structural Fund actions in the member states. The Commission selected a number of transnational pilot projects to train officials from local and regional governments responsible for the implementation of schemes in the framework of the Structural Funds. This training, or *formation de développeurs communautaires*, is designed to assist officials in drawing up, managing and monitoring schemes within the framework of CSFs. It can be concluded that regular contacts between programme implementers from different member states increases the sense of a professional *esprit de corps* and places a premium on the value of professional credibility and reputation.

Together, the importance of continuity over time, freedom from political interference, and professional networking offer indirect means by which the European Commission can seek to improve the effectiveness of regional partnerships. The focus on the 'human dimension' of programme implementation is an unavoidable consequence of the Commission's inability to alter directly the structures within which this behaviour takes place. This section has sought to provide some conceptual tools with which to emphasise the importance of the human dimension identified by interviewees. The final section of this thesis considers the potentially wider lessons of the model of policy implementation as incomplete contracting for students of the wider EC policy-making process.

8.4 Concluding Remarks

This concluding chapter has reiterated some of the strengths of the model of policy implementation as incomplete contracting. However, before speculating as to the potentially wider significance of the model, some of the limits of the model should be acknowledged. For example, the wider economic and financial environment within which the exchange relationship is situated should not be obscured. Scottish Enterprise's acceptance as an eligible body for Structural Fund purposes can be explained in terms of the asset specificity of the resources it brought to the exchange, but the wider economic questions of additionality and political preferences should not be neglected. The broader methodological criticism that assumptions about motivations are at best dubious, can easily be refuted in this context. Empirically, it can be shown that individual actors (invariably non-elected officials) participate in the implementation structure and enjoy considerable discretion with regards to their behaviour in that structure. This is a basic premise of the bottom-up approach to implementation analysis. Moreover, as suggested in this chapter, although the European Commission is unable to shape the administrative structures within which implementation takes place, it can seek to alter the actions of local actors indirectly. Consequently, the emphasis placed on motivational factors in this study is warranted given the Commission perspective adopted herein. Notwithstanding these potential criticisms, the model clearly illustrates the importance of *both* ex-ante *and* ex-post bargaining, focuses on the exchange relationship spanning both 'phases', and pinpoints the key dimensions of that exchange.

The potential relevance of the model of policy implementation as incomplete contracting derives directly from the nature of contemporary governance in the European Community. This study of intra-state implementation has revealed a *highly complex, inter-organisational* environment involving the European Commission behind the outer-shell of the member state. The extent to which the European Commission is able to frame regional development programmes reflecting its own objectives, and which it is able to implement in the environment of partnership, provides a useful test-case of the Commission's role in the process of policy-making and implementation. Marks' identification of a process of 'multilevel governance' (1992; 1993) in this field echoes the broader findings of Scharpf (1995). Intergovernmentalism and neofunctionalism are being replaced by notions of multi-level governance. As Majone suggests then, 'if the future of the Union lies not in more centralization but in closer cooperation among the different levels and institutions of governance, then the member states must be prepared to take concrete measures to improve mutual trust and the credibility of their own commitment to the common objectives' (1995: 29). Contracting approaches are thus of some conceptual value.

The open-ended nature of *directives* suggests that these Community acts (and perhaps also other instruments of the 'soft law' variety) may be usefully modelled as 'incomplete contracts' between the European Commission and the member states. Thereby, the importance of motivational factors can be highlighted.

> It is important to keep in mind the open-ended character of most Community acts, and of the founding treaties themselves. The most frequently used instrument of social regulation, the directive, is binding only "as to the results to be achieved" (Articles 189 of the EEC Treaty and 161 of the Euratom Treaty) but leaves "the choice of form and methods" to the national authorities. In other words, the directive lays down an objective and leaves it to the member states to achieve that objective according to such means as they see fit (Majone 1994: 12).

Complete contracts, totally pre-programmed in all respects are simply not a feasible model for EC legislation. Directives should not be overloaded with so much detail that they become like Regulations. Directives must be flexible enough to respond to changing conditions and their implementation can therefore be conceptualised as a process of relational contracting: 'it may be argued that the original concept of the European directive, as it appears in the founding treaties, is quite close to the philosophy of relational contracting, while attempts to erase the difference between directives and regulations represent a misguided response to the problem of contractual incompleteness' (Majone 1994). The wider potential value of the incomplete contracting model is that it could take analysis of Community policy-making beyond a primarily legal perspective to incorporate the significance of trust between contracting partners.

This thesis should finish with one final reflection on the Structural Funds. It is conceivable that the 1994-1999 Structural Fund programming period represents the peak of European Community involvement in policies for economic and social cohesion in the current member states. The European Commission itself acknowledges that it is impossible to predict the size and the nature of the Structural Funds beyond 1999, but as such funds now constitute one third of the Community's total budget, development programmes are likely to be scrutinised as never before. Moreover, the potential enlargement of the European Union beyond the present fifteen members to the Visegrad countries of the East would place considerable strain on the Structural Funds in their present form, and raises the question whether it would be feasible to continue Objective 1 support at current financing levels. The Director in DG XVI responsible for Objective 2 programmes between 1989 and 1993 has warned of the dangers of the increased emphasis on interstate transfers: 'all the talk of interstate transfers will move the Community regional policy away from Community economic development and back to the member states. This will in turn mean a move back to differing approaches to regional development and regional support. The result is that regional policy is moved away from the Commission' (Meadows 1991: point 5.3). Perhaps the single most obvious conclusion of this thesis is the cost of disguising an interstate compensatory mechanism in the clothes of a regional development strategy: if the Structural Funds are regrettably to perform merely a budgetary redistribution function, then the straightforward but controversial transfer of cheques between member state exchequers seems to offer the most efficient policy option.

Appendix 1 - List of Interviews

The following interviews were conducted over a period of four years. The interviews were semi-structured and were conducted 'face-to-face', usually lasting between 30 minutes and two hours. Formal interviews with Scottish Office officials were mostly conducted before or after the period in which the author was employed as a Scottish Office official. The numerous informal discussions enjoyed with colleagues have obviously not been included in this list. Finally, it should be noted that most of the key protagonists were interviewed more than once: in such cases, the dates of interviews are listed.

I. United Kingdom

1. David Martin MEP, Vice President of the European Parliament, Member of the European Parliament Committee on Regional Policy, Regional Planning and Relations with Regional and Local Authorities; Edinburgh, 28 March 1991.
2. Senior Executive Officer, European Funds and Co-ordination Division, Scottish Office Industry Department; Edinburgh, 16 April 1991.
3. Principal, European Funds and Co-ordination Division (European Central Support Unit), Scottish Office Industry Department; Edinburgh, 16 April 1991.
4. Senior Executive Officer, European Funds and Co-ordination Division (Programme Management Unit), Scottish Office Industry Department; Edinburgh, 9 January 1992 and 16 January 1992.
5. Higher Executive Officer, European Funds and Co-ordination Division (Implementation of European Review), Scottish Office Industry Department; Edinburgh, 16 January 1992.
6. Principal, European Funds and Co-ordination Division (Structural Funds Policy and Plan Writing), Scottish Office Industry Department; Edinburgh, 16 January 1992.
7. Head of Policy Strategy Group, Scottish Enterprise; Florence, 25 May 1992.
8. European Funds Project Officer, Chief Executive's Department, Strathclyde Regional Council; Glasgow, 12 January 1993.
9. Projects Officer, ScotRail; Glasgow, 12 January 1993.
10. Senior Accountant, British Gas; Edinburgh,14 January 1993.
11. Special Projects Officer, European Affairs, City of Glasgow District Council; Glasgow, 15 January 1993.
12. Associate Director, European Policies Research Centre, University of Strathclyde; Glasgow, 11 February 1993.
13. Group Interview, Senior Consultants, PA Cambridge Economic Consultants Limited; Glasgow, 19 March 1993.
14. Director of the Centre for Urban and Regional Studies, University of Newcastle upon Tyne; Newcastle upon Tyne, 24 March 1993.
15. Senior Executive Officer, European Funds, Northern Regional Office of the Department of Trade and Industry; Newcastle upon Tyne, 24 March 1993.
16. Researcher, Centre for Urban and Regional Studies, University of Newcastle upon Tyne; Newcastle upon Tyne, 20 April 1993.

17. Principal, Urban Policy Division, Department of the Environment West Midlands Regional Office; Birmingham, 27 April 1993.
18. Project Officer, Scottish Council of Voluntary Organisations; Edinburgh, 30 July 1993.
19. ERDF Programme Manager, Strathclyde Integrated Development Operation; Glasgow, 6 August 1993, 4 January 1995.
20. Assistant Secretary, European Funds and Co-ordination Division, Scottish Office Industry Department; Edinburgh, 15 September 1993.
21. Programme Director, Strathclyde Integrated Development Operation; Glasgow, 22 December 1993.
22. Senior Principal, European Funds and Co-ordination Division (Programme Management Unit), Scottish Office Industry Department; Edinburgh, 23 December 1993, 19 August 1994.

II. European Commission

23. Director, Directorate D, Objective 2 and 5b Operations, DG XVI; Brussels, 15 December 1991, 10 July 1992, 5 October1994.
24. Peter Schmidhuber, European Commissioner (with responsibility for Budget and Financial Control); Florence, 21 February 1992.
25. Assistant to Director General (responsible for regional policy advice), DG XVI; Brussels, 20 March 1992.
26. National Expert (seconded from the Scottish Office) in DG XVI; Brussels, 24 March 1992.
27. Head of Unit, DG XXII (Co-ordination of Structural Policies); Brussels, 27 April 1992.
28. Desk Officer for Western and Eastern Scotland Objective 2 programmes, DG XVI; Brussels, 10 June 1992, 3 May 1994, 25 November 1994.
29. Desk Officer for North East England and English West Midlands Objective 2 programmes, DG XVI; Brussels, 11 June 1992, 18 February 1993, 5 October 1993.
30. Member of the Cabinet of Commissioner Millan (Commissioner with responsibility for Regional Policies); Brussels, 14 July 1992.
31. Desk Officer for North Rhine-Westphalia Objective 2 programmes, DG XVI; Brussels, 14 July 1992.
32. Official in Local Economic Development Unit, DG XVI; Brussels, 14 July 1992.
33. Official (responsible for verification of additionality), DG XVI; Brussels, 17 July 1992.
34. Desk Officer for Nord-Pas de Calais Objective 2 programmes, DG XVI; Brussels, 20 July 1992.
35. Head of Local Economic Development Unit, DG XVI; Brussels, 20 July 1992.
36. Statistician (with responsibility for Objective 2 eligibility and the drafting of the Periodic Report); Brussels, 15 February 1993.
37. National Expert (seconded from the Scottish Office) in DG XXII (Co-ordination of Structural Policies); Brussels, 16 February 1993.
38. Official in Unit for Co-ordination of Evaluation, DG XVI; Brussels, 4 October 1993.

39. Member of the Cabinet of Commissioner Millan (Commissioner with Responsibility for Regional Policies); Brussels, 25 November 1994.
40. Desk Officer for ESF programmes in the UK, DG V; Brussels, 25 November 1994.

III. Miscellaneous

41. Senior Executive, Scottish Enterprise; Brussels, 27 March 1992.
42. EC Liaison Officer, Strathclyde Regional Council; Brussels, 15 May 1992.
43. Director, Antenne de Bruxelles, Région Nord-Pas de Calais; Brussels, 7 July 1992.*
44. Director, Association of European Regions of Industrial Technology (RETI); Brussels, 8 July 1992*, 18 February 1993.
45. Director, Northern Ireland Centre in Europe; Brussels, 9 July 1992.*
46. Senior Official, Wales European Centre; Brussels, 9 July 1992.*
47. Delegate, Patronat Català Pro Europa, Delegació de Brussel-les (Catalan Representation Office in Brussels); Brussels, 9 July 1992.*
48. Director, Verbindungsbüro Nordrhein-Westfalen (North Rhine-Westphalian Representation Office in Brussels); Brussels, 13 July 1992.
49. Chief Executive, Scotland Europa Office; Brussels, 16 July 1992.
50. Principal (with responsibility for Regional Policy), Office of the United Kingdom Permanent Representative to the European Communities (UKREP); Brussels, 20 July 1992, 16 February 1993.
51. Director, European Regional Affairs Consultants (ERAC - Boxtel); Florence, 19 June 1994.

* The five interviews marked with an asterisk were conducted jointly with Dr James Mitchell of the Department of Government, University of Strathclyde, Glasgow

Appendix 2 - The UK Domestic Regional Policy Framework

The development of regional policy in Great Britain has been covered in detail elsewhere (Parsons 1986; Prestwich & Taylor 1990) and need only be sketched briefly in this Appendix as a context for the analysis contained in the main text. The emergence of British regional policy can be traced to the 1930s and to the growth of high levels of unemployment in the so-called 'depressed areas', which included South Wales and Northern England as well as parts of Scotland. These were precisely the areas where there was a concentration of declining industries such as coal mining, shipbuilding, iron and steel, and textiles. The *Special Areas (Development and Improvement) Act 1934* designated four 'Special Areas': South Wales, North East England, West Cumberland and parts of West Central Scotland. These were renamed 'Development Areas' and were extended to include other towns and cities under the *Distribution of Industry Act 1945*, which enabled the Board of Trade to provide basic public services, reclaim derelict land and make loans to specific industrial undertakings in such areas. A 'negative strategy' was added to British regional policy for the first time in 1947 with the establishment of a system of Industrial Development Certificates (IDCs) to control the location of new factory developments. A further development took place in 1960 when the *Local Employment Act* abolished Development Areas and gave the Board of Trade power to designate 'Development Districts' on the basis of Local Employment Exchange areas. The maximum total population coverage reached at this time was 16.8% in 1966 (Nield & Carling 1992).

Throughout the period from the 1930s to the 1960s, the rationale for government intervention in the form of regional policy in the UK was primarily social. McCrone (1969) has emphasised the enmeshing of the social, economic and political objectives of British regional policy. Anderson, however, suggests that 'although official government pronouncements on the objectives of regional policy convey a natural dovetailing of social and economic goals, British regional policies in practice reveal an overriding concern with social objectives' (1992: 59). The focus on concentrated 'black spots' since the 1930s and the resultant targetting of unemployment, outmigration, and the breakdown of communities testify to the primacy of the social rationale. Anderson conludes that British regional policy has constituted a system of 'first aid' rather than an integral part of a strategy for economic expansion. The 'short-lived break' from this approach which occurred in the 1960s, when planning experiments were conducted as regional policies were grafted onto national planning targets, merely serves to highlight the distinction between the dominant British approach and the subsequent European-inspired approach of the 1980s and 1990s. The period in the 1960s when British regional policy makers actually 'trumpeted the virtues of planned state intervention in the economy' should therefore be sketchly briefly (Anderson 1992: 60).

In 1965 the Department of Economic Affairs (DEA), newly created by the Labour Government of that time, took over the regional policy and planning functions of the Board of Trade. The DEA presented a 'national spatial framework of regions within which economic planning could take place' (Prestwich & Taylor 1990: 138). As well as producing a national economic plan, the DEA introduced some administrative changes for the eleven 'Standard Planning Regions' (England was divided into eight planning regions, while Scotland, Wales, and Northern Ireland were each given planning region status. Standard Planning Regions are now used only for the presentation of regional statistical data). The administration of each Region was placed under the control of two separate planning bodies: a Regional Economic Planning Council and a Regional Economic Planning Board. The membership of the Councils was drawn from people living and working in the region (from industry, local authorities, and the universities for example) with the local knowledge and the experience to discuss the formulation and implementation of a regional development plan for their own region. The Boards were responsible for the day-to-day routine of preparing regional plans and co-ordinating the regional aspects of different government departments (ibid.: 138). The DEA, which was abolished in 1969 after only four years, was a radical, short-lived experiment that has never been repeated in the UK. Its demise was a result of inter-ministerial rivalries and clashes with pre-existing bodies. Nevertheless, the experiment is instructive in that its rejection illustrates the absence of a tradition of comprehensive economic planning in the UK. The programming procedure ultimately introduced under the EC Structural Funds in the 1980s found no counterpart in the UK. On the contrary, the programming principle met with profound scepticism amongst British civil servants, many of whom recalled the ill-fated DEA experiment of the 1960s.

While organisational change in the late 1960s was radical with the emergence and decline of the DEA experiment, changes in the specific policy instruments employed remained primarily incremental. The *Industrial Development Act 1966* abolished Development Disticts and replaced them with 'Development Areas'. These were the largest areas to date, and included the whole of Scotland except Edinburgh. In 1967 the *Regional Employment Premium* was created as a straight pay-roll subsidy for firms with manufacturing operations in Development Areas. A new category of region (corresponding largely with the pre-war Special Areas) was established in 1967: firms moving into the 'Special Development Areas', which were set up in response to a series of coal mine closures, could receive building grants (at a rate of 35% of costs), assistance with operating costs for a transitional period and rent-free government-owned factories for up to five years. Further incremental changes were instituted by the *Local Employment Act 1970*, which created 'Intermediate Areas' to encourage 'the growth and proper distribution of industry' where the problems were not so acute as to require use of all the powers available in Developments Areas and Special Development Areas. At that time there were therefore three types of assisted area, and rates of government assistance varied between each. Under the *1972 Industry Act* automatic Regional Development Grants were paid at the rate of 20% of a firm's costs in Development Areas and 22% in Special Development Areas, while a selective aid scheme also operated under the name of *Regional Selective Assistance*. Between 1975 and 1979, assisted area coverage peaked at just under 50% of the working population of Great Britain (Nield & Carling 1992). However, the late 1970s also witnessed the beginning of the decline of British regional policy.

Characterising post-war regional policy as 'a form of spatial Keynesianism', Martin and Tyler identify the three main premises upon which it was based. Firstly, the problem of economically depressed areas was interpreted as primarily structural in nature, resulting from localised deficiencies in demand. Secondly, the case for government intervention was justified both on social and economic grounds. The social objective was generally to reduce regional imbalances in employment prospects, while the economic goal was to realise national efficiency gains by utilising unemployed labour in the pursuit of non-inflationary growth in the national economy. Thirdly, it was assumed that the solution to the regional problem was to redistribute industry from low-unemployment growth regions to high-unemployment depressed regions. This was to be achieved through a system of investment controls in the growth regions and capital grants and subsidies in depressed regions. As Martin and Tyler point out, this general policy model was 'accepted to a greater or lesser extent by all post-war governments, both Labour and Conservative, up to the end of the 1970s' (1991: 8).

As Anderson explains, however, the cross-party commitment to regional policy began to unravel after 1976 as a result of several factors: the emergence of unemployment throughout the UK as result of the first OPEC crisis; severe fiscal constraints facing British policy makers; the perception of poor achievements in the 40 years in which regional policy had been in operation; and greater attention to urban decline in response to growing crisis in the inner cities (1990: 238). Around this time, the Industrial Development Certificate control system fell into disuse, while in 1976 the Regional Employment Premium was abolished. Against this background, Anderson suggests that 'the Thatcher assault on regional economic policy' was 'not a 180-degree turn in approach'. Rather, 'the distinctive element' was 'the combination of expenditure reductions with an explicit rejection of the assumptions and goals of regional policy' (ibid.: 239). Shortly after taking office in 1979, the Conservative Government announced a cut of £300 million in regional policy expenditure and warned of a sharp reduction in the coverage of Assisted Areas in the near future. Although the final abolition of the IDC control was largely symbolic, since it had not been applied since the mid-1970s, the major changes introduced by the Thatcher Governments between 1979-1988 amounted to more than simple changes in terms of geographical coverage and the instruments of regional policy. As well as the drastic cuts in finances, two changes characterise British regional policy in this period: firstly, an emphasis on development from within rather than the relocation of firms into assisted areas; and secondly, the continuing emphasis on the social rather than the economic rationale for such policy which provoked a shift in focus from regional development *per se* to urban policy and decline in inner cities. These should be considered in turn.

Following the announcement in 1979 by the new Secretary of State for Industry, Keith Joseph, of a rescheduling of Assisted Area status, coverage fell from 44% of the British population to 27% in 1982. The Assisted Areas map is based on the 322 'travel-to-work-areas' (TTWAs) into which Great Britain is divided by the Department of Employment. Regional Development Grant remained payable at the rate of 22% in Special Development Areas but was reduced from the rate of 20% to 15% in Development Areas. Regional Development Grant in Intermediate Areas was abolished. These were the first of many steps by the Thatcher Government to scale down regional policy (Prestwich & Taylor 1990: 153). The White Paper on 'Regional Industrial Policy' of December 1983 led to further changes in November 1984. At that time the three types of Assisted Area were reduced to the two which continue in existence today: Development Areas (DAs) and Intermediate Areas (IAs), covering 35% of working population (DAs covering 15% and IAs covering 20%). The Government was not able to cut back on assisted area coverage in 1983 as much as they had intended, partly as a result of backbench unrest coming from Conservative MPs representing Assisted Areas which were set to lose out, and partly as a result of the need to protect the UK's ERDF take-up which required that eligible regions should be in receipt of domestic regional assistance (Anderson 1990: 239). Indeed, the coverage of Intermediate Areas actually increased dramatically as a result of new areas being designated in Greater Manchester, Sheffield and parts of the West Midlands (Birmingham) to ensure that they would qualify for ERDF grants (Prestwich & Taylor 1990: 153).

In 1988 the Government announced its new industrial strategy in the context of the move to a Single European Market after 1992, a strategy contained in the White Paper '*DTI - Department of Enterprise*' (Cm 275). Three further regional policy changes were introduced as a result of the 'Enterprise Initiative': firstly, the system of automatic Regional Development Grants was abolished; secondly, a system of discretionary Regional Enterprise Grants was introduced; thirdly, 'The Consultancy Initiative' was launched. In Scotland these schemes are operated jointly by the Department of Trade and Industry (DTI) and the Scottish Office. *Regional Selective Assistance* (RSA) (amounting to around £200 million in 1992-93, broken down as £85 million for England, £62 million for Scotland, and £56 million for Wales) provides selective grants for businesses proposing new investments which create or safeguards jobs in Assisted Areas. The system of *Regional Enterprise Grants* (REG) is financially much smaller and comprises two types of grants: *Regional Investment Grants* (totalling £7 million in 1992-93, of which Scotland received £1.6 million) are paid to firms with fewer than 25 employees in Development Areas and in some Intermediate Areas, at a rate of 15% of costs up to a maximum of £15,000, to support investments such as diversification or expansion; *Regional Innovation Grants* (totalling £4 million in 1992-93, of which Scotland received £1.6 million) are paid at a rate of 25% up to a maximum of £25,000 for innovative projects involving technical risk to firms with fewer than 50 employees in Development Areas, Intermediate Areas and regions eligible under Objective 2 of the Structural Funds (Leslie Hays Consultants Limited 1990). Other DTI programmes, such as the *Enterprise Initiative Consultancy Scheme*, are not exclusively targetted on geographical areas, but have more favourable conditions in Assisted Areas. This constituted a package of around £60 million for Great Britain as a whole in 1992-93, providing financial assistance for companies with fewer than 55 employees to buy-in outside expertise for 5-15 days to tackle strategic and management issues. Two thirds of costs are paid to firms in Assisted Areas, but only half elsewhere.

It is important to note that British regional policy was changed fundamentally by the DTI's 1988 revisions. Again, regional policy was spared complete abolition even though the automatic Regional Development Grants scheme was abolished. The objective of central government involvement became that of encouraging 'self-help', and promoting competitiveness: 'its role was to become part of a government drive to encourage self-help, regional development 'from within', and a renewed commitment to enterprise. This approach marked a radical break with traditional regional policy, as the government reinterpreted the regional problem as one of economic inefficiency due to supply-side rigidities and a deficiency of entrepreneurial activity in the depressed areas. The policy response was therefore to help the depressed areas to improve their competitiveness and productivity, and to remove supply-side rigidities which prevent industry and commerce from generating self-sufficient growth. The key to reducing growth was therefore believed to be the stimulation of indigenous regional enterprise' (Armstrong & Taylor 1993: 208). In short, regional policy became a policy for small firms, and no longer focused on the relocation of large firms to Assisted Areas. The focus shifted to indigenous development, although any foreign investment would of course be welcomed as an added bonus. The Thatcher Governments sought to emphasise improved competitiveness rather than the subsidisation of employment.

At the same time as the Department of Trade and Industry promoted a shift in focus to enhanced local competitiveness, the Department of the Environment pressed for a greater recognition of the problems of urban areas, an issue that had come on to the agenda in the mid-1970s (Anderson 1992: 72-73). The *Local Government Planning and Land Act 1980* established the basis for 'Urban Development Corporations' and 'Enterprise Zones' (Prestwich & Taylor 1990: 150). Urban Development Corporations (UDCs) were single purpose agencies charged with the task of assisting the private sector to carry out the regeneration of derelict urban areas. Originally set up for the London and Liverpool Docklands, eleven UDCs were established in England and Wales through the 1980s. Enterprise Zones (EZs) constitute focused development sites in which firms benefit, among other things, from exemption from local authority business rates, and simplified planning controls. The first phase of designation of such zones took place in 1981-82 and included Clydebank (a town on the outskirts of Glasgow lying within the subsequent European Integrated Development Operation for Strathclyde). A second phase in 1983-84 designated smaller urban areas as EZs. The third phase spanned several years and came in response to closures of industries in towns which were highly dependent on a single source of employment: Inverclyde, which was dependent on shipbuilding, and most recently the industrial steel area of Lanarkshire, were both designated as EZs and both lie within the Structural Funds Objective 2 programme area of Western Scotland. In total 28 Enterprise Zones were designated between 1981 and 1993 (Brodtman & Johnson 1993). Both the UDCs and EZs innovations were indicative of the increasing attention paid to urban regeneration in the 1980s. In addition, around £80 million was also spent in Scotland in 1993/1994 through the *Urban Programme* (Bennett & Krebs 1991: 39-40). The Scottish Office's own *Urban Partnerships* provide a further £2.3 million to secure comprehensive economic, social and physical regeneration in four deprived, peripheral housing estates.

Armstrong and Taylor point to the coincidence of the downgrading of regional policy and the ascendancy of urban policy in Britain (1993: 207). The authors graphically illustrate the long term decline in spending on regional policy: from almost £1100 million in 1981 to under £600 million in 1988 (at 1985 prices). Simultaneously, urban policy expenditure rose from around £200 million in 1981 to £500 million in 1988. Moreover, 1989 was the year when urban policy expenditure overtook regional policy expenditure for first time, amounting to over £600 million compared to £400 million for regional policy (ibid.: 208). Moore and Booth (1986) consider the experience in Western Scotland of some of these urban policy innovations, in particular the Enterprise Zone at Clydebank and the Glasgow Eastern Area Renewal (GEAR) project. Lever (1986) considers more generally the benefits to Western Scotland of British regional policy assistance.

Appendix 3 -Key Dates in the Programming of ERDF Actions in Western Scotland

17 Dec. 1979	Concept of an IDO for Strathclyde first raised at a meeting of Strathclyde Regional Council (SRC) and Scottish Office officials.
1 April 1982	Policy and Resources Committee of SRC agrees to seek IDO status for Strathclyde.
20 Dec. 1982	Application made by SRC to Scottish Office for EC financial aid to conduct preparatory study.
27 July 1983	European Commission agrees to pay 75% of the £90,000 study costs.
5 Dec. 1983	Roger Tym & Partners Consultants appointed to assist in preparation of study.
Oct. 1984	Final report of IDO Preparatory Study submitted to European Commission.
18 Dec. 1984	EC response suggests an interim National Programme of Community Interest (NPCI) for the city of Glasgow.
Jan./May 1985	NPCI drawn up by Industry Department for Scotland.
15 May 1985	Draft NPCI submitted to the EC.
12 Sept. 1985	Revised NPCI submitted to the EC.
12 Dec. 1985	NPCI covering infrastructure expenditure (back-dated) from 1 June 1984 to 31 December 1987 approved by EC.
24 June 1986	Visit by SRC delegation to Brussels regains IDO momentum.
July/Aug. 1986	SRC and SO officials start to prepare new IDO proposal.
Sept./Oct. 1987	Informal draft of revised IDO submission passed to the European Commission and circulated around DG's V, XVI and the Task Force for SMEs for consultation.
19 Oct. 1987	Official IDO proposal submitted to the European Commission.
Oct./Nov. 1987	Internal consultation between DGs in the European Commission.
27 Jan. 1988	Commission's 'Technical Group on Integrated Approaches' did <u>not</u> accept proposal as a suitable basis for an IDO.
Feb. 1988	Inter-service meetings in the European Commission to co-ordinate comments to assist redraft of IDO proposal.
10 Feb. 1988	First meeting between Commission and UK central government convened to present detailed comments on IDO proposal.
22 April 1988	First revised IDO proposal submitted to European Commission.
May/July 1988	Internal consultation between DGs in the European Commission.
25 July 1988	Second UK central government - European Commission meeting convened, at which Commission requested substantial improvement to the IDO proposal and a reduction in the finance requested.
11 Oct. 1988	Second revised IDO proposal submitted to the European Commission.
Oct. 1988	Further internal consultation between Commission DGs.
21 Dec. 1988	IDO covering period 1 January 1988 to 31 December 1992 approved by the EC.
1Jan. 1989	New Structural Fund Regulations come into force.
May 1989	Scottish Office submits a 'Regional and Social Conversion Plan' for the Objective 2 area of Western Scotland.

19 May 1989	First meeting of the Strathclyde IDO Co-ordinating Committee in Glasgow.
June 1989	Programme Director takes up post.
March 1990	DG XVI issues 'Guidance Note' on Monitoring Committees for Objective 2 Community Support Frameworks.
12 Oct. 1990	EC approves the extension of the programme area to cover Ayr and Girvan travel-to-work-areas.
20 Mar. 1991	Commission decides to maintain existing list of eligible Objective 2 areas for 1992-1993 period.
Late 1991 the	Extensive discussion between DG XVI and the Scottish Office on eligibility of Scottish Enterprise and LECs for ERDF purposes.
Jan. 1992 of	DG XVI officially inform UKREP of decision to agree to eligibility Scottish Enterprise and the LECs.
Nov. 1992	Plan Team set up to prepare plan for post-1993 period.
31 Dec. 1992	Official completion of IDO.
May 1993	Joint Management Board set up to oversee functioning of the Programme Executive.
1 Jan. 1994	'Re-reformed' Structural Fund Regulations come into force.
March 1994	Western Scotland partnership submits new plan for the post-1993 programming period.

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